

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 183 Number 5546

New York 7, N. Y., Thursday, June 28, 1956

Price 40 Cents a Copy

EDITORIAL

As We See It

The debate over the road building program in Washington during recent months and the results of it—so far as results are actually to be seen—can hardly fail to leave the thoughtful observer weary and discouraged if not actually disgusted. The original proposal by the Eisenhower Administration was strongly suggestive of Truman's famous Point Four pronouncement in that it appeared to be poorly thought out, if thought out at all, and as much designed for the general political effect as for anything else. Suggestions for financing the gigantic scheme were cavalier to say the least, and after months of debate, the outcome seems still to be far short of making sense or even of being intelligible.

Possibly one may find some grain of encouragement in the fact that apparently the politicians have become more aware of the need of finding some way of raising the huge sums required for such undertakings. And if their awareness may be taken as indicative of an awakened public interest in the cost of public enterprises, so much the better. A great many extremely expensive tasks have been undertaken in recent years without giving a great deal of thought to what they would cost or who would have to pay for them. For a good while such matters were shrugged off with the thought that the rich would be soaked for the money required—and that was that. In other cases, it was merely taken for granted that the funds would be borrowed, mostly from the banks—and that would be good anti-depression medicine.

But unfortunately, mere awareness that large costs are involved and that somehow the funds

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Coal's Vital Place in World Prosperity and Peace

By WALTER J. TUOHY*

President, Chesapeake and Ohio Railway

Visualizing an extraordinary demand for coal during the second industrial revolution of atomic, petro and hydro energy, and presenting a plan to protect and promote the export coal market, Mr. Tuohy announces the formation of an "unprecedented partnership"—capitalized at \$50 million, composed of coal, labor and rail—to carry out John L. Lewis' suggestion of a cooperative venture to provide more ships for export coal. Describes Free Western Europe's permanent and expanding import needs and the faith and confidence shared by most financial institutions in the coal industry.

If coal could be rediscovered today in the research laboratory the world would hear with wonder of this amazing energy source. Coal, nature's concentrated power package in the handy black container, is perhaps taken a bit for granted these days.



Walter J. Tuohy

Coal powered the industrial revolution which began a century and a half ago. Today a second industrial revolution is sweeping the world, bringing with it as radical a change in the way of living as did the first. Nations all over the world are rebuilding after the war years, and are driving hard for higher living standards for their people. One may get the impression that new sources of energy are to power this second revolution. We hear of atomic energy, petro energy and hydro energy. The fact, however, is that coal energy, which powered the first industrial revolution, will carry the

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*An address by Mr. Tuohy before the Coal Exporters Association of the U. S., Inc., Washington, D. C., June 13, 1956.

Pros and Cons of Variable Annuities Debated

The Business Affairs Committee of the New Jersey Senate conducted a hearing June 22 on three bills (Nos. 450, 451 and 452) previously passed by the Assembly which would permit New Jersey insurance companies to sell so-called variable annuities to the public. The measures were introduced at the request of the Prudential Insurance Company of America, the leading proponent of the common stock-backed annuities. As expected, both champions and opponents of the pending legislation voiced their opinions at the hearing. Because of the importance of the issues involved, the "Chronicle" is privileged to make provision in this issue for some of the statements made at the hearing. Others will appear in subsequent issues.—EDITOR.

By GORDON L. CALVERT

Assistant General Counsel, Investment Bankers Association of America

The Board of Governors of the Investment Bankers Association of America recommends that the Association and its members should oppose any legislation which would authorize the sale of so-called "variable annuities" unless (1) such "variable annuities" are subjected to the same regulatory requirements as other securities under Federal and state securities acts, and (2) "variable annuities" not be given unfairly favorable tax advantages over other securities under the tax laws.



Gordon L. Calvert

The basic reasons why we believe that the sale of "variable annuities," without the same regulation as other securities under Federal and state securities acts and with an unfairly favorable tax treatment, is contrary to the public interest and should be opposed, are summarized below. The so-called "variable

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A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

(The articles contained in this forum are not intended to be, nor are they to be regarded, as an offer to sell the securities discussed.)

CHARLES F. ARLINGTON, Jr.
Security Analyst

McDonnell & Co., New York City
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Standard Oil Company (Indiana)

Standard Oil of Indiana is one of the largest factors in the United States oil industry, engaging in all phases of production, transportation, refining, marketing, and also petrochemicals. Its operations cover every state in this country, also Canada and off the Gulf Coast, and is currently doing exploratory work in Cuba, and Jamaica. Indiana has the following characteristics which make it attractive for long-term investment.

(1) A growth record of about 7% a year compounded.
(2) The strongest marketing position in the United States heartland.

(3) The most efficient manufacturing plant of any large company in the United States, probably holding the largest percentage of modern refining.

(4) A low cost record for finding and developing domestic oil reserves.

(5) The long time investment in Standard of New Jersey gives representation in foreign production and its value is equal to about 1/3 of Indiana's total market value, and also provides additional unconsolidated earnings.

(6) A challenging position in Canadian oil production, and a prospect in Cuba where they hold 1/3 of total acreage.

(7) Possibility of a very big profit gain in petrochemicals which could add between 5%-7% to net in 1957 and a larger percentage in subsequent years.

During 1955 Indiana succeeded in gaining on the industry in sales, earnings, and capital investment. These results appear to be a vindication of the company's policies of emphasizing investment in refining and marketing for top efficiency and concentrating exploration ventures in and near North America.

The typical experience of this stock in recent years has been stability combined with growth at a slightly better rate than the oil industry. In most years the stock tends to sell on a higher price earnings ratio and lower yield than the stocks of most other very large companies. During bull markets Indiana seldom gets into the vulnerable position that many other oil stocks reach temporarily, and for the first time in years sells on a higher yield basis than international companies.

Indiana has reported that reserves of crude oil and natural gas liquids at the end of 1955 were 2.1 billion barrels. If we apply a value of \$1 a barrel for this reserve it works out to a value of over \$60 a share, compared to the current market price of around \$59. These reserves were acquired at low cost and it is believed that they are conservatively stated. Canadian reserves have not been reported separately, but Indiana is hopeful that they will show reserves of more than 80 million barrels upon completion of their

present Canadian drilling program.

The company is the sixth largest producer of crude oil in the United States. Crude production varies between 41%-57% of refinery runs, with about 2% of the company's production in Texas. Currently, crude production is running about 45% of refinery runs. In 1955 Indiana's net production of crude and natural gas liquids averaged slightly more than 275,000 barrels per day, approximately 25% less than their maximum efficient rate of production.

Indiana has a particularly strong position in Canada with interest in approximately 3 million acres. Jointly with another company, Indiana has interests in about 200,000 acres in the Pembina field. Of these about 25,000 have been proven and exploration and development is continuing at a rapid pace. Currently, more oil is being produced from Pembina than from any other field in Canada. The company has set a goal of 12,000 barrels a day of oil production from Canada in 1956.

Standard has ventured into Cuba and Jamaica in its never ending search for oil. In Cuba, Indiana can secure a 1/2 interest in 12,000,000 acres, provided that they spend \$10 million in the next five years. These acreage commitments include off-shore lands and leases on land spotted throughout the island, thus Indiana has about 1/3 of the total island and off-shore areas under contract. There is a fair sized captive market within Cuba for oil. With oil legislation favorable and manufacturing built up, oil refinery capacity is expected to increase 10-fold in the next few years. Cuba has an ideal location for the transportation of crude to the Eastern markets of the United States.

Indiana is now in a position where its refineries are probably the most modern in the industry. Standard owns and operates 12 plants in the United States with a total crude charging capacity of 655,800 barrels per day; total catalytic cracking capacity of 260,000 barrels per day, and a catalytic reforming capacity of 49,000 barrels per day. Indiana is the second largest refiner in the United States, with only Standard of New Jersey ranking ahead of it. In catalytic reforming, the fastest growing segment of the refinery industry, Indiana is just slightly behind Jersey in capacity and well ahead of Socony, the next largest refiner. This, of course, permits exceptionally low manufacturing costs and a greater yield of high value products.

Standard of Indiana serves over 30,140 retail gasoline outlets in almost every state in the union. Jobbers provide outlets for the company's lubricants in states where they are not represented at retail. While the number of stations have not shown any growth since 1946, this does not indicate the true picture, for in this same period sales per outlet have increased 75%. This has been accomplished by a concentrated plan of eliminating old and non-productive stations, enlarging and modernizing existing ones, and building better and more efficient new outlets.

The company retails under three different trade names through subsidiary companies, each responsible for a separate geographical location, as well as under its own Standard name. For instance, its American Oil

This Week's Forum Participants and Their Selections

Standard Oil Company (Indiana)
—Charles F. Arlington, Jr., Security Analyst, McDonnell & Co., New York City. (Page 2)

British Petroleum Co., Ltd.
—Leonard V. Segal, Investors Service Dept., Dreyfus & Co., New York City. (Page 24)

Company subsidiary "Amoco" operates in every state along the eastern seaboard and is currently planning to start marketing gasoline in the Texas City-Galveston area of Texas, its first entry into this state. It is also extending its lubricant marketing through Arizona, New Mexico and California. Pan Am Southern Corporation operates under its "Pan-Am" trademark in the middle southern states and is probably the fastest growing retail division of the company.

In the midwest, Standard of Indiana exclusively operates under the "Standard" sign. As a result of the breakup of the original Standard Trust, Indiana has the exclusive right to use the Standard name in the midwest area where its stations have become an integral part of the community. They dominate the midwest area and probably do one-fifth of all the retail business in this rapidly expanding territory.

Utah Oil Refining Company retails in the States of Utah and Nevada and the northwestern section of the United States under the "Utoco" trademark, where it is actively expanding its facilities farther into the state of Washington and the surrounding territory.

Indiana probably sells more products directly to consumers and retailers than any other oil company. This provides a tight, well knit marketing organization which is also very flexible—able to move quickly. In order to promote more aggressive selling and serve as a management spear, the marketing setup has been reorganized on a decentralized basis. Thus, the maximum amount of management control is able to focus on one point within the shortest time possible.

One of the company's most interesting chemical ventures is the Hidalgo Chemical plant. If everything goes according to schedule, this plant can produce over 5,300 barrels of gasoline and fuel oil a day and 180 million pounds of chemical products in a year. Chemicals are going to be emphasized and Hidalgo's gasoline production diverted to still further chemical developments and upgrading. This setup tied in with its other projects could make Indiana one of the largest petrochemical producers in the world.

A new ammonia plant is currently under construction near the Whiting Refinery which will have a capacity of 300 tons of ammonia per day. This plant is under the supervision of Calumet Nitrogen Products, a company controlled 55% by Indiana and 45% by Sinclair. Each will supply about 1/2 of the hydrogen used for the production of ammonia and market their own shares of this end product. This plant will be one of the largest in the middle west and is a natural result of the company's desire to upgrade all their refined products, e.g., the hydrogen used in a by-product from the hydroforming process.

Indiana announced that they have purchased an interest in a hydrocarbon oxidation process which is brand new. This process will result in more efficient and lower cost production of raw materials used in synthetic fibers.

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The Stock Market Outlook And the Psychological Factor

By GERALD M. LOEB*

Partner, E. F. Hutton & Company
Author "Battle for Investment Survival"

Prominent dealer believes psychological situation today favors more investors and higher stock prices; sees continuation of Republican Administration increasing equity values and a Democratic victory making equities preferable to cash; and regardless of returns, states "anything other than a full employment policy is political suicide" and, together with rising wages and shorter hours, requires long-run inflation as a support. Mr. Loeb discusses: (1) ability of business cycles to become self-correcting; (2) weak technical position in the stock market due to broadened stock-ownership and likelihood of technical situation becoming weaker as the market goes higher; (3) advisability of including psychological possibilities in business forecasting; and (4) relationship of bearish stock market to bullish purchasing power. Lists investment issues offering most current attraction.

The decision of what portion of one's investment funds to have in stocks and what portion to have in cash divides itself into the consideration of six major influencing factors.

The least predictable is the news: What will tomorrow bring forth? And what effect will the now unknown have on the relative values of stocks and money? The most important news in the U. S. A. is who will be nominated and who will be elected President of the United States. Will President Eisenhower run again? Will his health hold through election if he runs and through his term if he is elected? Who will be the Republican candidate for Vice-President? If President Eisenhower's health gives the Democrats a chance, then their nominees become important.



G. M. Loeb

Effect of Either Republican or Democratic Victory

Neither you nor I nor anyone else can answer these questions. I am a Republican and therefore inclined to think the nation will be better off if a Republican is elected. And if the country as a whole is better off, its equity markets should benefit.

At the same time, in what I personally consider the unfortunate event that a Democrat Administration be elected, it does not automatically follow that stocks will go down and stay down.

The basic reason is obvious—yet generally overlooked. One can not sell stocks without buying money. When you buy stocks you spend money to do it. And when you sell stocks you reverse the procedure. You can not and do

not step off into some kind of riskless state of suspended animation. The stocks you owned before you sold them may go down as you expected—or may surprise you and go up. The value of the money you received will likewise go down or up. Thus, before you become actively bearish on the stock market you must at the same time be actively bullish on the purchasing power of the dollars you will receive for your shares.

From my obviously biased Republican point of view, I think a Republican Administration would result in a sound increase in equity values based on a favorable business climate. But should a Democratic Administration unexpectedly come into power, then inflationary influences could well continue to make equities preferable to cash.

A second item in the news that we can not clearly foresee is improvement or deterioration in the foreign situation. Either way, I think its influences would be offset by other factors.

The political factor, regardless of the election, is more predictable. Anything other than a full employment policy is political suicide. And full employment plus rising wage scales and shorter work weeks need long run inflation as a support.

Economic Cycles Are Self-Correcting

The economic situation is not any longer an all inclusive favorable or unfavorable one. The interdependence of industries has been reduced. We have seen prosperity and depression existing alongside of each other particularly since 1946 as spending habits changed. The outlook is for a continuation of divergent trends with no broad all inclusive decline likely despite some apparent weakness in a few important directions.

Economic cycles are self-correcting. If people buy too many cars in one year they buy less in the next. If they overborrow they stop until their budgets are again in balance. Today's weak spots

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 7, N. Y.
REctor 2-9570 to 9576HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
Thursday, June 28, 1956

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue—market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 South La Salle St., Chicago 3, Ill. (Telephone STate 2-0613);

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Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

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Role of American Business In Aiding the Free World

By JOHN J. McCLOY*

Chairman, Board of Directors, the Chase Manhattan Bank

Mr. McCloy appraises current broad developments and unsolved international political and economic problems bearing on both the responsibilities and opportunities confronting American business in its foreign operations, and offers these guiding observations: (1) need to double critical imports and other materials to maintain our strength and living standards; (2) foreign competition increasing; (3) imports, at the existing rate, may rise more than a third by 1965; (4) problem of Soviet international competition; and (5) need to courageously, but realistically, organize \$1 to \$2 billion additional private and public, annual program for underdeveloped areas to assure reasonable, steady progress. Credits private, dynamic U. S. business for making an indispensable contribution to the growth and welfare of the developed and underdeveloped Free World, an activity now "tinged with a national interest as never before," as well as to the continued health of enterprise here.

We are passing through another exacting period which calls for re-examination of the policies and practices that govern our relations



John J. McCloy

with the rest of the world. The continuing revolution in the technique of warfare, the new leadership and tactics of the Soviets, the great shifts of power, and the rise of many new and uncommitted nations all make it so. Our government has emphasized, and events proclaim, that we are at another turning point in international affairs and our public policies are being weighed and measured anew. It is no less fitting and important that the business community should take similar action with regard to its activities in the international sphere, and I hope that these meetings today will really probe the subject.

As I thought about this Conference and the role of American business in the world abroad, I could not help but be impressed again with the vast physical changes that have occurred in recent years in the environment within which we now operate. It still startles me, for example, to contemplate the tremendous advance in the art of communications and the extent to which the world has thereby been foreshortened. A short while ago I visited the research laboratory of one of our greatest communication systems and the devices of the fu-

ture there forecast and planned seemed out of this world. Thought in an infinite variety of forms can be transmitted in a flash. In about two years we shall be able to travel to Europe in something like four hours—about the same time it now takes to journey by train from New York to Boston. It is little wonder then that, with the globe grown so small, political power and influence have tended to become polarized around a relatively few units. Whether we like it or not, our own country has become one of these—indeed, perhaps the first among them. Today the United States holds responsibilities for leadership of a political, economic and moral character that are unmatched in all history.

I do not need to go into great detail as to why we find ourselves in this position. The weight of our resources, the state of our technical arts, the institutions we have fashioned—all have something to do with it. But no matter what the reasons, the fact is that today the United States accounts for no less than 40% of the world's industrial output. This in itself would make our nation a decisive factor in any balance sheet of world affairs.

Facts of Soviet Strength

But hardly less important in shaping our position has been the rise of another great power—a power which, with its allies, controls one-fourth of the earth's land surface, one-third of its people, and has gained command of all the techniques of modern industry and warfare. Only a fortnight ago I was told by a prominent European of a recent visit to the Academy of Science in the Soviet Union. This school of advanced learning has an enrollment considerably over 100,000 with branches scattered throughout the land and up-to-date equipment,

the equivalent of anything we possess. It may be that there is not much else in Russia save politicians and scientists, since that it is where the Soviet leaders apparently believe their future lies! Yet the facts of Soviet strength are sobering and impressive and cannot be laughed off, particularly when one contemplates that the Soviet Union is not only an aggressive power but quite explicitly continues to be guided by principles that are the antithesis of all that we ourselves cherish.

In the face of all this, it indeed becomes impossible to visualize America as an isolated economy, standing alone in its own corner, with lesser interests and growing smaller each day, while the Soviet Union reaches out to dominate the work and life of other lands. Such a picture is an unnatural one, entirely out of focus with the times. And of course it becomes all the more so when we contemplate its implications in terms of our national safety and security. In this day of the hydrogen bomb, soon to be carried by missiles that span continents, no nation—not even the United States—can stand alone. We need the help of allies and friends—of the 310 millions in Western Europe, the 190 millions in Latin America and Canada, and of as many of the 850 millions in Free Asia as will work with us. And quite as clearly, they desperately need our good will and strength.

Growing Raw Material Shortage

Today these political and military necessities are facts of life for every business man. Standing beside them, moreover, is a corollary development that is more strictly economic in character. I refer to the growing shortage of certain key raw materials in the United States, and our need to look abroad for an increasing supply of them. You are all familiar with the statistical position on such items as iron ore, petroleum, copper and other metal ores, and the prodigious rate at which we are consuming them. Suffice it to say that in the next two decades we must at least double our imports of these and other materials if we are to maintain our strength and standard of living.

Even while these needs of the United States have been growing, both political and economic, profound developments have also been occurring elsewhere among nations who are our friends. Strong nationalism has taken hold in many of the underdeveloped areas of the world. Great new countries have emerged, full scale, to play their independent roles in world affairs—India, Pakistan, Burma, Vietnam, Indonesia, and soon the Gold Coast, Nigeria, and perhaps others. These are lands which have not traditionally or primarily looked toward the United States for trade and investment. Today they have an urgent need for help in their development. Living standards are low in such countries; capital and technical skills are woefully scarce. Yet in spite of great needs, the atmosphere of extreme nationalism in which these countries have sprung to life breeds obstacles which tend to inhibit outside assistance, particularly from private investment. There is one final trend in the background that I would mention—and here it applies to both the underdeveloped countries and to ourselves; that is the growth in the role of government in matters that bear on world economic affairs. This has been carried to its extreme in the newer countries, where government often acts as the arbiter and manager of enterprise in a manner with which we in the West do not always sympathize. But then we must recognize that these governments are trying to crowd a century of economic development into a generation, and they are under great pressure from

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Moderate increases characterized the output of the electric power, steel, lumber and coal industries in the period ended on Wednesday of last week.

The employment situation showed a fractional decrease in claims for unemployment insurance benefits, but the level for the week was 8% above that of a year ago.

An item of interest was gleaned this week from a report in the June issue of "Survey of Current Business," a monthly publication of the United States Department of Commerce, which stated that average before-tax family income reached a record high of \$5,520 last year. This was a 3% increase over 1954 and resumed the postwar rise in average family personal income after a slight dip from 1953 to 1954. Before-tax family income averaged \$4,870 in 1947.

Average after-tax family income in 1955 amounted to \$4,980, compared with \$4,850 in 1954 and \$4,380 in 1947.

Total family income before taxes amounted to \$288,000,000,000 in 1955. Approximately \$84,000,000,000 went to families with incomes under \$5,000; another \$129,000,000,000 went to families with incomes between \$5,000 and \$10,000 and the remaining \$75,000,000,000 went to families with incomes above \$10,000.

For the first time in years, steel company strategists have outmaneuvered steel labor. By taking the offensive from the start, industry negotiators are in position to get something they need badly—and that is stability over a period of years, according to "The Iron Age," national metalworking weekly, in its current release on Wednesday last.

Steel labor will growl and make threatening gestures, it may even shut down the industry in protest, but its chances of forcing another one-year contract on the industry are pretty slim, states this trade paper.

The showdown on length of contract has been a long time coming. Steel negotiators proposed a 5-year agreement and told the union, "This is it." Even with threat of a strike on their hands, steel firms held fast. It looks as though the best steel labor can hope for is a compromise, either a 3-year contract or a 5-year agreement with a 3-year reopening clause.

As a face-saving gesture toward labor, the steel companies may set the first-year cost of the "package" at around 20c an hour as compared with the initial offer of 17½c an hour.

Meanwhile, whether there is a strike or not, steel production will suffer. If negotiations go down to the wire, production loss this week will approximate a half million tons. And there would be another half-million-ton loss next week, maybe more, due to the proximity of the July 4 holiday.

If there is a strike, all metalworking would be hit, but construction, oil and gas, and freight car building, especially, since these industries depend on hard-to-get structurals, pipe and plate, declares "The Iron Age."

Machine tool shipments, cutting type only, during May continued on a slight but steady upturn, the National Machine Tool Builders' Association, currently reports. Total shipments of \$76,750,000 compare favorably with \$71,800,000 in April, \$74,150,000 in March, \$64,600,000 in February and \$54,600,000 in January.

Net new orders in May totaled \$86,050,000, bringing the net new orders for the first five months of 1956 up to \$445,700,000 as compared to \$295,250,000 for the same period of 1955.

In the automotive industry last week output climbed 5.3%, topping the 3,000,000-unit mark for the year, "Ward's Automotive Reports," stated on Friday last.

Truck scheduling at 21,973 units, rose 6.2% above the preceding week with Chevrolet sighting its best yield since late April.

Bright notes during the week, said "Ward's," were General Motors' statement that the corporation has rehired 7,300 workers at Midwestern plants since May and Ford Division's announced production boost for July.

Currently, it added, the industry's 1956 vehicle building is lagging 23% behind 1955. Through last week, assemblies since Jan. 1 approximate 3,668,782 cars and trucks compared with 4,748,758 a year ago.

United States car manufacture alone, at 3,091,877, is behind 1955's output of 4,127,276 units by 25%. Truck production for Jan.

Continued on page 38

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Observations . . .

By A. WILFRED MAY

NEW TAX-EXEMPT GUIDE

With the growth of tax consciousness among ever larger areas of the moneyed community, and the upper-bracket investor's increasing proclivity to maximize the spendable income from the dollar reserve division of his portfolio, the municipal bond is eliciting constantly broader public interest. Of particular and timely interest in this connection is a new conveniently arranged and sized book "A MANUAL ON MUNICIPAL BONDS," by Winthrop S. Curvin, Manager of the Municipal Buying Department of Smith, Barney & Co., members of the N. Y. Stock Exchange. (64 pp., \$3.50. Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.)

With information ranging from an explanation of "What Are Municipals?" to "The Mathematics of Bond Investment" to "The Use of the Basis Book," the book can be of service to the expert institutional investor as well as the neophyte buyer of this class of securities. The factors in analyzing and classifying municipals are discussed in full detail and the general characteristics, such as classes of obligors, types of issues, maturities, statutory investment qualifications, and legal opinions are succinctly noted.

Maintaining that municipal bonds, perhaps more than any other class of security, are bought for investment, an analysis by Mr. Curvin of the distribution by his firm of new municipal issues shows that commercial banks bought 29.5%; private investors 14.3%; estates, endowments, etc. 6.4%; life insurance companies, 6%; other insurance companies, 6%; corporations 5.6%; savings banks 4.5%; other investors 0.9%, and other dealers, 26.8%.

Of particular interest is the attention given to the revenue bond.

Its marketing course is traced from the starting point in the planning of the specific project, to the completion of the public or private sale of the securities to finance the project. The book reminds us how toll road bonds, of all of the various types of revenue bonds issued during the postwar period, have caught the imagination of investors. Nevertheless, the author explains, "toll roads are not the whole answer to the problem posed by the tremendous increase in automobile ownership and the changes in the nation's traveling habits." The volume includes a highly informative two-page chart covering all the toll road bond issues marketed to date, with a summarization of all relevant characteristics.

The book ends with a glossary of municipal bond terms, and a five-page table of Moody's and Standard & Poor's ratings of the general obligations of all cities over 50,000 population, several of the larger issues of revenue bonds, and obligations of the 48 states. A worthwhile addendum to an extremely valuable stand-by volume!

"WHAT IS A VARIABLE ANNUITY?"

With the wide interest that has been stirred up by the discussion of pending Variable Annuity legislative proposals, clarification for the lay public of the difference between the True Annuity and the Variable Annuity seems to be in order.

A True Annuity is a fixed dollar annuity, with a guarantee of future payments at a fixed minimum amount, which is set at the time of purchase. The premium is paid during the holder's working years, with the proceeds being invested by the insurance company within the statutory legal safeguards. The annuitant may receive more than the guaranteed amount, or his premiums may be reduced by dividends, if the company earns more than anticipated.

In the case of the Variable Annuity, the holder likewise pays the premiums during his working years, and at retirement receives periodic payments. But the company's investment of the premiums, in lieu of its restriction under the present legislation, is to be invested practically entirely in common stocks. The annuitant's income will not be a fixed minimum guaranteed amount, but will depend on a combination of the market value of the underlying portfolio of common stocks and the presumably fluctuating dividend receipts.

INVESTMENT ADVICE AT THE CRADLE —or How Really to Get Stocks to Minors

Following is a letter forwarded to us by a four-day mother, the gift from a Stock Exchange member firm.

DEAR MR. AND MRS.—

We were very pleased to read in this morning's New York "Times," that you have just become the proud parents of a baby

Continued on page 21

Electronic's Investment Outlook

By EDGAR N. GREENEBAUM, Jr.*
Greenebaum & Associates, Chicago

Believing that certain electronic securities belong in every investor's portfolio, Chicago security dealer not only calls attention to the bright future of leading television set makers but also describes eleven typical issues of other firms that should be considered on a long-term basis, and points out that greater opportunities for investment gain are available in a variety of smaller companies which do not, as compared to those that do, sell to the public. Mr. Greenebaum estimates this year's industry sales will be 7.4 million sets—close to the 7.7 million sets sold in 1955—including 150,000 color sets and popularly growing new personal portables. Concludes big firms are getting bigger and small firms smaller or going out of business or being taken over, and links a firm's size to its promotion-advertising budget.

Not all of the more than 3,400 companies engaged in the "science" of electronics are publicly owned, but merely the size of this figure gives a fairly good idea as to some of the complications in trying to single out even a few of the companies suitable for long-term investment. The privately and closely-held concerns can not be ignored as they provide actual or potential competition to those operations in which the investor may be interested.

At this particular time many investors are somewhat "cisen-chanted" with some of the electronic issues. This seems to come as a result of several contributing factors, not the least of which is the difficulty currently confronting television setmakers in regard to showing a decent profit margin. A large part of the public is not careful to distinguish between setmakers and other types of electronic activities, grouping them all together from the standpoint of securities. Furthermore, the prices of various electronics stocks rose too far and too fast in advance of earnings which did not develop as rapidly as had been anticipated and/or the companies in question were not as capable as the hopeful investor had been led to believe. A sadder and wiser public has come to the realization that merely being in electronics is not an "Open Sesame" to profitable operations, either for the company or the investor. The mortality rate of electronic companies is as great or greater than in virtually any new field.

One of the reasons for the short life of some enterprises is that the man or men at the head of certain companies are scientists, and even though they may be outstanding engineers, their training in the fundamentals of running a complex business has been extremely limited, if not completely nonexistent. This was particularly true after World War II when numerous engineers, either singly or by banding together, formed new companies and went forth to do battle. It has been a tough fight.

7.4 Million Sets for 1956

For the last seven years we have enjoyed sticking our neck out fairly early in the year, when after checking with TV set manufacturers, component parts makers, distributors and dealers, we have guesstimated what the industry as a whole might produce in the way of television receivers, as well as what the top ten setmakers might achieve. Each year we have said to ourselves, "This looks like the

toughest year of all to come up with any meaningful figures." 1956 is no exception. Our best "guesstimate" at this time is an industry total of 7.4 million sets, including approximately 150,000 color sets. If this is realized, it will bring 1956 production within shooting distance of last year's 7.7 million record-breaking total.

Though it may augment the reluctance of consumers to buy black and white sets, color will not contribute any profits to the industry this year, especially if no more than 150,000 color sets are sold. There may well be more than 150,000 color sets manufactured, but selling them during 1956 is another matter. (With all due apologies to Ernie Gorin and his company, RCA, as he has just forecast the sale of 300,000 color sets this year.) As one wag in the TV industry put it: "Color sets are now priced so high that even the Joneses can't afford them!"

Estimated Sets Per Manufacturer

Here goes our neck-sticking-out for this year. In our opinion, the following is the order of manufacturers and the number of sets they may produce this year:

FIRST TEN—	NO. OF SETS
R. C. A.	1,150,000
Admiral	900,000
General Electric	800,000
Philco	750,000
Motorola	675,000
Zenith	675,000
Silvertone	400,000
Emerson	380,000
Magnavox	300,000
Westinghouse	200,000

Total First Ten... 6,230,000
Balance of Industry 1,170,000

Total Industry --- 7,400,000

In case there is any lifting of eyebrows, a few supplementary comments may be in order. The General Electric figure includes the sets which G.E. plans to make under the Hotpoint label. This month (June) marks Hotpoint's debut in television and for at least the time being its sets will be made by the parent company. Most of you will recognize the Silvertone name as the label used by Sears, Roebuck & Co. This production comes from two-Sears-controlled companies, namely Warwick Manufacturing Co. and Pacific-Mercury Television Manufacturing Corp. The Magnavox total includes their two recently acquired labels, Sparton and Sentinel.

If we are close to being right, the total of 6,230,000 receivers for ten setmakers would permit the manufacture of no more than one million sets by the "Second Ten." This group probably includes Sylva, CBS, Hoffman, Packard-Bell, DuMont, Muntz, Crosley, Wells-Gardner, Olympic and Traveler, not necessarily in that order. Considering that there are more than 30 additional teletest makers we have not mentioned, it becomes quite evident that there isn't a great deal of business left to go around for the 40-odd companies after the first ten.

Big Firms Are Getting Bigger

A comparison of the guesstimated production figures with previous years makes one conclusion inescapable: the big ones are getting bigger and the small ones smaller or going out of business or being taken over. The trend is crystal clear. With the top ten manufacturers doing approximately 84% of the total available business, this leaves only 16% for the balance of the entire industry. According to figures compiled at the time, no more than 72% of the market was held by the Top Ten as recently as two years ago. The industry total of slightly more than 50 different setmakers compares with 78 manufacturers a mere three years ago. The trend is continuing and growing stronger.

Recently some of the better-known names which suspended set-making operations or were absorbed by other companies include Raytheon, Capehart-Farnsworth, Stromberg Carlson, Sparton, Sentinel, Hallicrafters, Stewart-Warner and Arvin. We hear that at least one of the "Second Ten" names is about to throw in the sponge. It would be difficult to find a more striking illustration

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*An address by Mr. Greenebaum before the Ninth Annual Convention of the National Federation of Financial Analysts Societies, Boston, Mass.

Railroad Financing: 1957-66

By W. ARTHUR GROTZ*
President, Western Maryland Railway Company

Convinced that the railroad industry has demonstrated its ability to survive and finding "all around us indications of tremendous growth ahead," Mr. Grotz concludes that merely on the basis of national interest a prompt and searching study of tax or other relief to provide an atmosphere conducive to investor interest is required in order to finance adequately the needs of the industry in the coming decade. Mr. Grotz estimates that of the assumed \$20 billion replacement outlay required in the next decade, \$7.5 billion will accrue from depreciation, \$4 billion from reinvested earnings, leaving \$8.5 billion to be obtained from the outside which would require the sale of \$12.5 billion if financed by serial maturities and sinking funds. Proposes statesmanship in labor relations; attracting young executives; longer equalization reserve period; similar tax exemption accorded to port authorities and others; replacement accounting to contend with inflation; and the less impressive but no less imperative economies of new cars, yards, line changes and signals.

All of you doubtless recall the statement made by President Symes of the Pennsylvania Railroad, to the effect that our railroads would require \$20 billion for new equipment and new facilities over the next 10 years.



W. Arthur Grotz

The figure was startling to many of us. We had a vague notion tucked away in our minds that the total investment in railroads from their very beginnings up until now was not so very much more than \$20 billion. The present investment less depreciation is, I believe, about \$27 billion. Certainly construction of new lines into places not now served by a railroad was not contemplated. Our first question was, naturally, why so much money for replacements. Yet, as one examines, in the light of the greatly risen costs, the bare needs of our industry in the coming decade of national

growth and intense competition, the \$20 billion seems increasingly reasonable. I am prepared to accept it as roughly the amount needed.

I want to talk to you, therefore, about getting \$20 billion, an enormous amount for private industry—to discuss its possible sources and the atmosphere which must be developed, if so great an amount is to be raised. I will approach this from the standpoint, first, of the individual railroads, secondly, of the investing public, and, finally, of cooperation and help from government.

As to internal cash production of the railroads, themselves, there are three broad areas to consider. The first is successful and economical operation, the excess of revenues over expenses. The second is cash from depreciation accruals. The third area comprises financial policy and financial public relations.

The first is the province of railroad superintendents, but the way you operate will have a telling effect upon whether, and how much, revenues increase. The day of railroading for railroading's sake has passed. The sign of the new day of financial awareness is the activity of stockholders at and between annual meetings. You, yourselves, have become increasingly conscious of revenues and

costs. You'll be forced to learn a lot more. For example, you simply must find ways to get more miles per day out of cars. I believe the national average freight car turnaround is about 16 days. If the shippers and you striving together could save one day, the effect would equal suddenly finding 100,000 freight cars! And at \$8,000 each, that would mean \$800,000,000! Are we everlastingly exhorting the shippers to do all they can do? Have we too many intermediate yards? Does our reluctance to countenance overtime at strategic yards result in delays more costly in car time than the overtime pay? Would 10 cents an hour car hire instead of \$2.40 per diem result in car investment savings greatly in excess of added clerical or computer costs?

Depreciation Accruals

As to the second area, how much of the \$20 billion will be generated from depreciation accruals? Depreciation of way and equipment in 1955 amounted to \$535,000,000. The annual rate will increase as new equipment and depreciable facilities raise the base. Perhaps we may assume a total of \$7.5 billion of the \$20 billion will come in this rather painless manner.

The third of the internal areas was financial policy.

Financial policy involves (a) long-range planning, (b) the attitude toward debt creation or debt reduction, (c) the determining factors with respect to possible sales of additional preferred or common stocks, and (d) the desirable percentage of net income to be distributed as dividends.

The related area of financial public relations involves communicating to the investing public not only business facts but also the collective personal characteristics of management, such as aggressiveness, enthusiasm, imagination and enterprise. Financing involves selling, just as persistently as does traffic solicitation. An investor has thousands of alternative routes for his dollars.

I wish I had time to discuss fully this policy area of financing. I can take time, however, for only two points: (1) the creation of added debt by our industry should not be discouraged as a matter of course. It should be positively encouraged, if it will result, as I am

sure it can in the majority of railroad situations, in so adding to earnings available for fixed charges as to improve the over-all credit picture. Certainly the borrowing for diesels did just that. (2) The amount of net earnings that can be plowed back in the next 10 years consistently with good investor relations is probably about 50%. Assuming earnings for the next 10 years at the level of the years 1951-55, inclusive, we might count on plowing back about \$4 billion.

So far I have covered by depreciation and plowback \$11.5 billion of the \$20 billion, leaving \$8.5 billion to be obtained outside the railroads.

Investors are shrewd and realistic, and technological innovation will be a major force in inducing investment. The rate at which the railroads themselves, the supply people, or others, can come up with workable new ideas will have a lot to do with raising money.

Confidence in Rails' Growth

Atmosphere, however, will play a decisive part in the efforts of the railroads to raise this \$8.5 billion. The investors' enthusiasm for railroad securities is bound to be dampened if government regulation appears to be as outmoded as the steam locomotive. The deteriorating position of common carriage in our total economy must be effectively corrected.

There are bound to be questions of labor relations which, by their effect upon prospective net earnings, might limit the ability of railroads to raise large amounts of additional capital. Happily, near-statesmanship in labor relations is evidenced among the leaders. A higher degree of understanding will be called for on all hands. Certainly railroad capital cannot prosper without its workers prospering. Nor can the workers possibly gain in the long run by any condition which would impair the railroads' ability to get the funds required for competitive facilities and equipment. Indeed, the danger exists that, lacking complete cooperation of labor, management and stockholders, all three, the next ten years will see accelerating attrition of railroad mileage.

During the next few years we will all be on our mettle to demonstrate to shippers and investors alike, by our own actions and attitudes, by our flexibility of thinking, that the railroad industry is entitled not only to survive but to grow. Certainly we find all around us indications of tremendous growth ahead. The airplane industry is talking of jet planes at \$5 million apiece to handle the greatly expanded traffic between 1959 and 1965. The trucking industry is predicting that the nation's fleet of trucks will double by 1975—grow to 20 million trucks—and they are guessing that \$100 billion will be invested by the nation in highways. We find predictions for rail-trailers, sea-trailers, and rail, truck and air coordination. Certainly opportunities for growth will be on every hand.

Attracting College Men

The challenge of these vast opportunities is presented to the people in railroads and in government. Let's equip ourselves for grasping them by devoting as much of our time and resources as we can afford to a pursuit of advanced knowledge—a "break-through" of barriers—and by a really great effort to attract college graduates to our industry. Let us catch the Kettering spirit of the "inquiring mind"—of the inevitability of change. Let's keep asking, "why" and "how."

I recently asked Professor Kent Healy, whose railroad course at Yale University is well known, why railroading has not been more popular among college men. He replied that a great deal of the reason stems from the lack of con-

fidence of the older railroad men, as contrasted, for example, with the exuberant confidence of other industries. A change of attitude by the railroad industry away from the "crying towel" is imperative. It affects investors just as it affects young men.

Let's get back to finance.

It is appropriate now to try to estimate how many of the \$8.5 billion can be raised from the public by the sale of bonds, notes, equipment trusts or capital stock. I am inclined to believe that not more than 10% will be raised by sale of stock. If the pattern of the last 30 years is an indication, very little will come from this source.

Perhaps all of the \$8.5 billion can be raised by borrowing from the public. Let's examine this possibility. The railroad debt at Dec. 31, 1954, was \$10 billion. The average rate of interest on future borrowings will probably be higher than that of the last ten years. In order to assure against a weakening of credit the earnings available for fixed charges would have to double. Not only the fixed charges would go up but, even more importantly, the money required for future serial debt retirement might create an acute cash flow problem.

Moreover, a net increase over the period of \$8.5 billion in debt would require the sale of perhaps \$12.5 billion to offset the intervening serial maturities and sinking funds, even assuming all principal maturities of bonds during the period were extended at maturity.

I am inclined to believe that \$12.5 billion could be obtained from the public on favorable terms only under the atmosphere of decidedly positive government policies.

Longer Equalization Reserve Period

It is appropriate, therefore, to think of the other great party in interest in transportation for commerce and defense—the Government. And in getting into this aspect I realize that I am groping for landmarks in the uncharted sea of the future.

In the field of long-term planning, government and railroads should work to develop a way of evening out the "feast or famine" characteristics of railroad purchasing. Does it save or cost money in the long run for a typical railroad to place an order for rail in October in a recent year and cut it by 80% in February?

The Interstate Commerce Commission recognizes the theory of smoothing out expenses by the use of an accounting device called "equalization reserve." We use it for maintenance of way expenses on the Western Maryland. But this reserve must be washed out each year. I raise the question whether a reserve of this sort for three or five years, based on carefully determined needs of track and equipment, might not offer a stabilizing effect. And whether, to assure this highly desirable stability, the government might not take part of the risk.

Tax Exemption Accorded Others

Still groping for some landmark, I come to tax exemption. I become aware of great construction projects based on tax exemption or deferment. The work of port authorities, state road commissions, airport and bridge authorities are basically affected by tax exemption. The construction throughout vital industries under accelerated amortization illustrates the help of deferred taxation. I'll have more to say about this later.

Perhaps a landmark, an answer to the question of tax relief for soaring replacement costs, may be suggested by one of the replacement theories already recognized in taxation. One theory has to do with the deferment of taxation on the gain involved in the sale of a

Continued on page 40

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The United States Housing Act of 1937, as amended, solemnly pledges the faith of the United States to the payment of the annual contributions by the Public Housing Administration in accordance with the terms of the Annual Contributions Contracts.



In an opinion rendered to the President of the United States on May 15, 1953, the U. S. Attorney General stated in part:

"In summary, I am of the view that: * * * A contract to pay annual contributions entered into by the PHA (Public Housing Administration) in conformance with the provisions of the act (U. S. Housing Act of 1937, as amended) is valid and binding upon the United States, and that the faith of the United States has been solemnly pledged to the payment of such contributions in the same terms its faith has been pledged to the payment of its interest-bearing obligations."

(parentheses not in original text)

LOCATION OF AUTHORITIES AND AMOUNTS

Pennsylvania Issues		Scale 1		Scale 2		Scale 3	
2 1/2% Bonds		2 3/8% Bonds		2 1/2% Bonds		2 5/8% Bonds	
\$2,315,000 Allegheny County, Pa. (1984-90)		\$1,555,000 Cambridge, Mass. (1957-82)		\$3,625,000 Kansas City, Mo. (1984-93)			
845,000 Erie, Pa. (1957-96)		1,600,000 Holyoke, Mass. (1957-82)		1,615,000 Buffalo, N. Y. (1957-96)			
975,000 Fayette County, Pa. (1957-90)		1,375,000 Lawrence, Mass. (1957-82)		2,275,000 Richmond, Va. (1984-93)			
		1,650,000 New Bedford, Mass. (1957-81)					
Scale 2		Scale 3					
2 3/8% Bonds		2 1/2% Bonds					
\$4,780,000 Peoria, Ill. (1957-81)		\$2,175,000 Macon, Ga. (1957-81)					
1,875,000 Covington, Ky. (1957-81)							
11,275,000 Newark, N. J. (1957-82)							
2,745,000 Nashville, Tenn. (1957-91)							
2 1/2% Bonds		2 5/8% Bonds					
\$2,800,000 Oakland, Calif. (1957-96)		\$1,540,000 Huntsville, Ala. (1984-93)					
9,460,000 Chicago, Ill. (1957-96)		1,210,000 Tuscaloosa, Ala. (1984-93)					
1,915,000 Huntington, W. Va. (1957-96)		1,155,000 LaGrange, Ga. (1984-93)					
		1,780,000 Covington, Ky. (1984-93)					

MATURITIES AND YIELDS OR PRICES

(Accrued Interest to be added)

Due	All Issues	Due	Penna. Issues	Due	Scale 1	Due	Scale 2	Due	Scale 3
1957	1.75%	1966-67	2.10%	1966-67	2.10%	1966-67	2.10%	1966	2.10%
1958	1.80	1968-70	2.15	1968-70	2.15	1968-69	2.15	1967	2.15
1959	1.85	1971-73	2.20	1971-73	2.20	1970-71	2.20	1968-69	2.20
1960	1.90	1974-76	2.25	1974-76	2.25	1972-74	2.25	1970-71	2.25
1961	1.95	1977-79	2.30	1977-79	2.30	1975-77	2.30	1972-74	2.30
1962-63	2.00	1980-83	2.35	1980-83	2.35	1978-80	2.35	1975-77	2.35
1964-65	2.05	1984-86	2.375	1984-87	2.40	1981-83	2.40	1978-80	2.40
		1987-96	2.40	1988-91	2.45	1984-87	2.45	1981-83	2.45
				1988-91	2.50	1988-91	2.50	1984-87	2.50
				1992-96	2.50	1992-96	@ 99 1/2	1988-96	2.55

(Note: Where the yield and the coupon are the same, the price is par)

The bonds of each issue will, with the exception noted hereafter, be redeemable on any interest payment date on and after ten years from the date of the bonds as a whole, or in part in inverse numerical order, at a redemption price of par and interest accrued to date of redemption plus the following premiums: 4% if redeemed on or before 15 years from their date; 3% if redeemed thereafter but on or before 20 years from their date; 2 1/2% if redeemed thereafter but on or before 25 years from their date; 2% if redeemed thereafter but on or before 30 years from their date; 1 1/2% if redeemed thereafter but on or before 35 years from their date; without premium if redeemed after 35 years from the bond date. The bonds of the local public agencies located in Kentucky, as above, if called in part, will be selected by lot from the whole number of the respective issues then outstanding.

These Bonds are offered when, as and if issued and received by us and are subject to prior sale and approval of legality, with respect to each issue, by recognised municipal bond counsel.

Descriptive Circular upon request

The Chase Manhattan Bank Bankers Trust Company Chemical Corn Exchange Bank Guaranty Trust Company The Northern Trust Company Harris Trust and Savings Bank The First National Bank C. J. Devine & Co.
Kidder, Peabody & Co. Salomon Bros. & Hutzler The Philadelphia National Bank of New York Carl M. Loeb, Rhoades & Co. The First National Bank American Trust Company Seattle-First National Bank
Blair & Co. Dick & Merle-Smith The Marine Trust Company Mercantile-Safe Deposit and Trust Company Trust Company of Georgia Barr Brothers & Co. W. H. Morton & Co. Bache & Co.
Bacon, Whipple & Co. City National Bank & Trust Co. The First National Bank of Baltimore Fulton, Reid & Co. King, Quirk & Co. Fidelity Union Trust Company Wachovia Bank and Trust Company
Baker, Watts & Co. Commerce Trust Company A. G. Edwards & Sons Federation Bank and Trust Co. Field, Richards & Co. First National Bank First National Bank The Illinois Company
R. H. Moulton & Company National Bank of Commerce The Peoples National Bank Pierce, Carrison, Wulbern, Inc. Third National Bank J. C. Wheat & Co.

New York, June 28, 1956



Dealer - Broker Investment Recommendations & Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Atomic Letter (No. 18) dated June 1, containing comments on uranium guarantee extension, atomic Navy, guided missiles, atomic aircraft—Atomic Development Mutual Fund, Inc., Dept. C., 1033 Thirtieth Street, N. W., Washington 7, D. C.

Bituminous Coal and The Pittston Company—Bulletin—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Canada—Monthly business review—Bank of Montreal, Montreal, Que., Canada (New York representative, 64 Wall St., New York 5, N. Y.).

Canada—Fortnightly market letter—Bache & Co., 36 Wall Street, New York 5, N. Y.

Canada—Investors' Digest issued monthly—Wills, Bickle & Company, 44 King Street, West, Toronto, Ont., Canada.

Canadian Commercial Letter—Monthly bulletin—Canadian Bank of Commerce, Business Development Division, 25 King Street, West, Toronto 1, Ont., Canada.

Canadian Financial Facts and Comment—Bulletin—Gardiner, Annett Limited, 330 Bay Street, Toronto 1, Ont., Canada.

Chemical & Pharmaceutical Industry—Bulletin—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Florida Bank Guide—Monthly bulletin including bid and asked prices—Atwill and Company, Inc., 605 Lincoln Road, Miami Beach 39, Fla.

Foreign Letter—Burnham and Company, 15 Broad Street, New York 5, N. Y.

Institutional Type Common Stocks—Selected list—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Investing for Income and Growth—Two suggested portfolios—Thomson & McKinnon, 11 Wall Street, New York 5, N. Y.

Japanese Stocks—Current information—Yamaichi Securities Co., Ltd., 111 Broadway, New York 7, N. Y.

Latin American Import Competition—In current issue of Latin American Business Highlights—Chase Manhattan Bank, 18 Pine Street, New York 15, N. Y. Also in the same issue is a discussion of the **Latin American Meat Industry**.

Missile Makers—Highlights No. 32—Troster, Singer & Co., 74 Trinity Place, New York 6, N. Y.

Over-the-Counter Index—Folder showing an up-to-date comparison between the listed industrial stocks used in the Dow-Jones Averages and the 35 over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over a 13-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Sixty Stocks With Sex Appeal—Three groups chosen by member firms of the American Stock Exchange for stable income; growth; or income-growth—in June 1956 issue of "American Investors"—American Stock Exchange, 86 Trinity Place, New York 6, N. Y.—subscription \$1.00 per year.

Treasure Chest in the Growing West—Area resources book explaining opportunities of the area served—Utah Power & Light Co., Dept. K, Box 899, Salt Lake City 10, Utah.

West German Tile Industry—Report—Roy E. Jordan, Jr., Pres., The Mosaic Tile Company, Zanesville, Ohio.

• • •

All Metal Products Co.—Memorandum—Wm. C. Roney & Co., Buhl Building, Detroit 26, Mich. Also available are memoranda on American Auto Felt Corp., E. & B. Brewing Co., Hurd Lock & Manufacturing Co., Mid West Abrasive Co., National Brewing Co. of Michigan, Peninsular Metal Products Corp., and Port Huron Sulphite & Paper Co.

American Greetings Corp.—Memorandum—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Aquafilter Corp.—Memorandum—Whitehall Securities Corp., 52 Wall Street, New York 5, N. Y.

British Aluminium Company Ltd.—Analysis—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Canadian Pacific Railway Company—Review—James Richardson & Sons, 173 Portage Avenue, East, Winnipeg, Canada and Royal Bank Building, Toronto, Canada.

Carolina Power & Light Co.—Analysis—James H. Oliphant & Co., 61 Broadway, New York 6, N. Y.

Cities Service Co.—Memorandum—Hemphill, Noyes & Co., 15 Broad Street, New York 5, N. Y. Also available is a memorandum on Mechanical Handling Systems, Inc.

City of Alexandria, La.—Bulletin—Park, Ryan, Inc., 70 Pine Street, New York 5, N. Y.

L. A. Darling Company—Analysis—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Dominion Tar & Chemical Company—Analysis—McLeod, Young, Weir & Company Limited, 50 King Street, West, Toronto, Ont., Canada. Also available is an analysis of the Steel Company of Canada, Ltd.

Federated Department Stores, Inc.—Memorandum—Talmage & Co., 111 Broadway, New York 6, N. Y.

General Dynamics Corporation—Analysis—Harris, Upham & Co., 120 Broadway, New York 5, N. Y.

General Telephone Co.—Memorandum—First Securities Corp., 111 Corcoran Street, Durham, N. C.

W. R. Grace & Co.—Annual report—Dept. CFC, W. R. Grace & Co., 7 Hanover Square, New York 5, N. Y.

Green Bay Mining & Exploration Limited—Report—De Pontet & Co., Inc., 40 Wall Street, New York 5, N. Y.

A. P. Green Fire Brick Company—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Gulf Life Insurance Company—Survey—Pierce, Carrison, Wulbern, Inc., Barnett Building, Jacksonville, Fla.

Harnischfeger Corp.—Bulletin—Bache & Co., 36 Wall Street, New York 5, N. Y. Also in the same bulletin are data on Natco Corp.

Husky Oil Company—Bulletin—Leason & Co., Inc., 39 South La Salle Street, Chicago 3, Ill.

Leetronics Inc.—Memorandum—S. D. Fuller & Co., 39 Broadway, New York 6, N. Y.

Marshall Field & Co.—Memorandum—Blunt Ellis & Simmons, 208 South La Salle Street, Chicago 4, Ill. Also available is a memorandum on National Aluminate Corp.

McGregor-Doniger, Inc.—Analysis—Unlisted Trading Department, Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Mexican Light & Power Co. Ltd.—Bulletin—A. G. Becker & Co., Inc., 120 South La Salle Street, Chicago 3, Ill.

Miller Manufacturing Co.—Bulletin—de Witt Conklin Organization, 100 Broadway, New York 5, N. Y. Also available is a bulletin on Atlas Plywood Corporation.

National Life & Accident Insurance Company—Analysis—Clark, Landstreet & Kirkpatrick, Inc., 315 Fourth Avenue, North, Nashville 3, Tenn.

Niagara Mohawk Power—Comparison with New York State Electric & Gas—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Pacific Uranium Mines Corp.—Circular—Singer, Bean & Mackie Inc., 40 Exchange Place, New York 5, N. Y. Also available is a circular on Stancan Uranium Corp.

Riverside Cement Co.—New views—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

St. Louis Union Trust Co.—Memorandum—G. H. Walker & Co., 503 Locust Street, St. Louis 1, Mo.

Southland Racing Corp.—Report—General Investing Corp., 80 Wall Street, New York 5, N. Y.

South Penn Oil Company—Analysis—W. C. Langley & Co., 115 Broadway, New York 6, N. Y.

Southwestern Fire & Casualty Co.—Memorandum—Sanders & Co., Republic National Bank Building, Dallas 1, Texas.

Standard Oil of Indiana—Report—Harris, Upham & Co., 120 Broadway, New York 5, N. Y. Also available are reports on Sears, Roebuck & Co., Polaroid, and Minerals and Chemicals. In the June "Pocket Guide" are data on companies in the Guided Missile field with lists of common stocks for income, growth and trading, etc.

Statler Hotels Delaware Corp.—Memorandum—Arthur M. Krensky & Co., Inc., 141 West Jackson Boulevard, Chicago 4, Ill.

Texas Gulf Sulphur—Data—Bruns Nordeman & Co., 52 Wall Street, New York 5, N. Y. Also in the same bulletin are data on United Fruit.

Banking Group Wins \$88 Million Bonds Of 29 Housing Bodies

A nationwide syndicate of banks and investment dealers headed by The Chase Manhattan Bank was the successful bidder June 27 for \$88,000,000 of a total of \$91,755,000 New Housing Authority Bonds offered at competitive bidding by local housing authorities located in 16 states and San Juan, Puerto Rico.

The group specified interest rates of 2½%, 2½% and 2½% for the bonds, which mature serially from 1957 to 1996, inclusive.

The bonds were reoffered to the public in four separate yield groups—Scales 1, 2, 3 and 4—at prices to yield from 1.75% to 2.55%.

Scale 1 ranges in yields from 1.75% to 2.40% for bonds of the housing authorities in Allegheny, Erie and Fayette Counties, Pa.

Scale 2 ranges in yield from 1.75% to 2.50% and is applicable to bonds of the housing authorities of Richmond, Va.; Kansas City, Mo.; Holyoke, Cambridge, Lawrence and New Bedford, Mass.; and Buffalo, N. Y.

Scale 3 ranges from a yield of 1.75% out to a dollar price of 99½, for bonds of the housing authorities in Chicago and Peoria, Ill.; Oakland, Cal.; Newark, N. J.; Huntington, W. Va.; Nashville, Tenn.; and Covington, Ky.

Scale 4 ranges in yield from 1.75% to 2.55% and applies to issues of housing authorities in Macon and La Grange, Ga.; Woonsocket, R. I.; San Juan, Puerto Rico; Huntsville and Tuscaloosa, Ala. Troy, N. Y.; Dallas, Texas; Norfolk, Va.; and Covington, Paducah and Newport, Ky.

Proceeds from the sale of the bonds will be used to retire advances from the Public Housing Administration (PHA) or temporary loans from other than the PHA, and the balance will be used to meet the cost of the housing projects.

The bonds will be callable ten years from their date at a redemption price of 104% and accrued interest, and thereafter at declining prices to 101%.

Interest on the bonds is exempt from any Federal income tax now or hereafter imposed. The bonds are legal investments for savings banks and trust funds in New York and certain other states.

The bonds of each issue will be secured by a first pledge of annual contributions unconditionally payable under an Annual Contributions Contract between the PHA and the local housing authority issuing the bonds. The United States Housing Authority, as amended, solemnly pledges the faith of the United States to the payment of the annual contributions by the PHA.

With Hopkins, Harbach

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—John A. Black is now with Hopkins, Harbach & Co., 609 South Grand Ave., members of the Los Angeles Stock Exchange. He was formerly with Fewel & Co.

COMING EVENTS

In Investment Field

June 29, 1956 (New York City)
Investment Association of New York annual outing at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 29, 1956 (Toledo, Ohio)
Bond Club of Toledo summer outing at Inverness Club.

Sept. 1-21, 1956 (Minneapolis, Minn.)
National Association of Bank Women 34th Convention and annual meeting at the Hotel Radisson.

Sept. 27, 1956 (Rockford, Ill.)
Rockford Securities Dealers Association seventh annual "Fling-Ding" at the Forest Hills Country Club.

Oct. 4-6, 1956 (Detroit, Mich.)
Association of Stock Exchange Firms meeting of Board of Governors.

Going to Press—

Highlights No. 32

"Missile Makers"

TROSTER, SINGER & CO.

HA 2-2400

Members N. Y. Security Dealers Association
74 Trinity Place, New York 6, N. Y.

NY 1-376

DEPENDABLE MARKETS



DEMPSEY-TEGELER & CO.

Summer Job Wanted

Young man, now a high school senior, would like job for summer with a firm or bank in or near New York City. Willing to apply myself and endeavor to make myself a credit to my employer. Box S 614, Commercial & Financial Chronicle, 25 Park Place, New York 7, N. Y.

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Girl Friday for busy municipal executive. 15 years' experience in N. Y. C. with leading houses.

Box K628, Commercial & Financial Chronicle, 25 Park Place, New York 7, N. Y.

Making Money In Stocks

By ROGER W. BABSON

Economist charts two programs of making money on the stock market. One, by selling when price is high and buying at the bottom of decline; and, the other, by swapping maturing industries for new industries. Points out that the latter requires ability, intelligence, courage to act on principle and considerable work with no attention paid to general market conditions, or to the business cycle.

The only way I have made money in the stock market has been by selling stocks and taking profits at times like this, depositing

the money in banks, and waiting until the bottom of the next decline. When the market crash finally comes, I buy stocks.

In this way I am not a speculator, but am like the ice man in the North who gathers ice in wintry weather

and stores it up for people to use during the summer. This same principle, in reverse, applies to those who can fruit and vegetables in summer when they are about to spoil. We all perform a real service and are entitled to be rewarded. We have the courage to sell stocks or buy fruit when others lack the courage to do so. People who go with the crowd make conditions worse. Those who go contrary to the crowd are in a position later to make conditions better when there is much unemployment, no new building, and when commodities are selling below cost.

Buying Into New Industries

Others make money in the stock market by performing another kind of service—that is by helping new industries when they are unpopular and taking profits when these industries mature and are popular. Those who follow this second program have the additional advantage of diversification. They also always keep their money working, whereas, under my method, my money is idle about a third of the time. Buying into new industries each year and selling the stocks of a few maturing companies requires much research. Any investor who desires to follow such a program should be prepared to pay an Investment Counselor for selecting these new industries. Furthermore, although General Motors, for instance, has been a "gold mine," yet there have been scores of other automobile companies which have gone bankrupt. It is necessary both to get into the right industry, and also to buy the stock of the right company within that industry.

Wisconsin University's Program

Although swapping maturing industries for new industries is exceedingly profitable when done intelligently, very few individuals or even institutions have the ability and courage to act on this principle. One college, however, has had a most interesting experience in this connection. I refer to Wisconsin University, which, on its typical Board of conservative college Trustees, had also some bright chemists and engineers. These younger men so failed in

getting the conservative Board to adopt a more courageous investment policy that they formed a separate Trust — The Wisconsin Alumni Research Foundation. They got together seven men who contributed \$80 or so apiece, making a total of \$585 to start with on Jan. 1, 1926. They increased this small sum by the purchase and sale of "growth stocks" so that, at the present time, this \$585, with accumulated dividends and profits, amounts to over \$17,000,000 with a market value on Dec. 31, 1955, to \$36,000,000. Approximately \$6,000,000 received from patents and royalties they gave

back to the University for new buildings and increased salaries. I might also give the names of individual clients which my organization has helped along these same lines. I could also cite a member of my family who during 50 years increased \$600 to over \$1,000,000 by putting the dividends and profits back into newer industries when they were unpopular and selling these when they became popular. Meanwhile the fund was kept well diversified with only a comparatively small amount in each industry, so risk was pretty well eliminated. All this required, however, considerable work as the entire fund was

turned over probably once in ten years. In this case, no attention was given to general market conditions or to the investment cycle.

The Report of a Psychiatrist

Let me close with a story which one of my valuable associates, John D. Riordan, tells. It concerns a friend who had a nervous breakdown on account of his overactivity in the stock market. One day when the patient was lying on the couch and telling of his early life, the psychiatrist said, "I understand what got you into all this trouble. The first thing you seem to remember is your mother rocking you in the cradle

and sinking 'Bye lo, Bye lo, Baby.' You interpreted this to mean 'Buy low—Buy low!'"

Wilson & Creem Admit

On July 6 Michael Creem will acquire a membership in the New York Stock Exchange and will be admitted to partnership in Wilson & Creem, 120 Broadway, New York City, members of the New York Stock Exchange.

Two With Federated Plans

(Special to THE FINANCIAL CHRONICLE)
TARBORO, N. C.—Edward L. Forbes and Mary E. Forbes have become associated with Federated Plans, Inc.

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Debentures. The offer is made only by the Prospectus.

\$20,000,000

British Columbia Power Commission

3¾% Sinking Fund Debentures, Series K, Due 1986

Price 98½% and Accrued Interest

\$10,000,000

Pacific Great Eastern Railway Company

3¾% Sinking Fund Debentures, Series B, Due 1981

Price 98¼% and Accrued Interest

\$10,000,000

British Columbia Toll Highways and Bridges Authority

3¾% Sinking Fund Debentures, Series B, Due 1976

Price 98¾% and Accrued Interest

Interest payable June 15 and December 15 in the City of New York in lawful money of the United States of America.

All of these Debentures, to be dated June 15, 1956, will be unconditionally guaranteed as to payment of principal and interest by the PROVINCE OF BRITISH COLUMBIA (CANADA)

Copies of the Prospectus may be obtained from only such of the undersigned as may legally offer these Debentures in compliance with the securities laws of the respective States.

MORGAN STANLEY & CO. HARRIS & PARTNERS LIMITED, INC. BURNS BROS. & DENTON, INC.

A. E. AMES & CO. BLYTH & CO., INC. THE DOMINION SECURITIES CORPORATION

DREXEL & CO. GOLDMAN, SACHS & CO. HARRIMAN RIPLEY & CO.

KIDDER, PEABODY & CO. MERRILL LYNCH, PIERCE, FENNER & BEANE

SALOMON BROS. & HUTZLER SMITH, BARNEY & CO.

STONE & WEBSTER SECURITIES CORPORATION UNION SECURITIES CORPORATION

WHITE, WELD & CO. WOOD, GUNDY & CO., INC.

June 28, 1956.

A Bearish Stock Market View

By JOHN WESTCOTT*

Manager, Research Department
Greene & Ladd, Members New York Stock Exchange

Predicting the "odds appear to favor a better buying opportunity for the long-term investor within the next 12 months," Investment Analyst Westcott lists 17 bearish warnings of an impending top, and a few bullish arguments mollifying 100% certainty that the bear market is now underway. At most, Mr. Westcott cannot be bullish except on an intermediate trend basis and, while expecting the D-J Average to recover slightly above the 500 level by July, foresees by middle of next year a possible greater decline than any since 1946, and D-J 1956 average earnings of slightly below the \$35.78 shown in 1955.

The last time I had the honor of addressing our society was in the summer of 1952 with the Dow Jones Industrial Averages around 275. At that point it was not difficult to have an optimistic viewpoint since most of the data I use to determine trend appeared to favor a continuation of the bull market for at least two or three years.



John M. Westcott

Although 1953 proved trying to one's patience, the Dow Jones Industrial Average never declined more than 20 points below the 275 level, and by the spring of this year had almost doubled when reaching the all-time record high of 521.

Unfortunately I can not defend the bullish cause, today, except on an intermediate trend basis. Some time before the end of July, I expect the Dow Jones Industrial Average to recover to slightly above the 500 level, but before the middle of next year a decline of greater magnitude than we have witnessed since 1946 appears probable.

Impending Top Warning Factors

Some of the factors that usually warn of an impending top are appearing as follows:

- (1) A declining bond market since 1954.
- (2) A bear market in London since July, 1955 (London peaked out ahead of our market in 1929, 1937 and made bottom in 1940 almost two years ahead of ours.)
- (3) A bull market blow-off in the last two years which just about equalled the percentage gains made during the same time period preceding the tops of 1929 and 1937.
- (4) A penetration of the 200 day moving average with the average rolling over.
- (5) The new highs in 1956 were made with volume dropping below 15 million shares a week against over 20 million shares a week on the President's heart attack break in September and 22 million on the upside in early 1955.
- (6) A retreat back below the strong support area around 490.
- (7) A new high by the rails unconfirmed by the industrials as is typical of a major top.
- (8) Continued weakness in the odd-lot figures showing the public to be rather complacent about the outlook.
- (9) A time period of about 10 years since end of World War II or about the same as 1919-1929.
- (10) The motor stocks have been declining since November 1955 while in 1929 General Motors peaked in March or about six months ahead of the averages.
- (11) Farm commodity prices have been slipping since 1954 while the price of copper, which

is notorious for rushing up at the end of bull markets, has recently had a dizzy rise and fall. Farm income was declining in the late 1920's.

(12) Debit balances have stopped rising for over six months and free credit balances made their peak in early 1955.

(13) The banking figures as interpreted by Mr. James Hughes and Bolton Tremblay are no longer giving us a bullish background.

(14) Earnings of some major industries (such as the automobile industry) are turning down sharply.

(15) Over expansion (at least temporary) appears to be threatening some industries.

(16) The political background is no longer as favorable since there is an excellent chance of the control of the House and Senate being in the hands of the Democrats, even if we have a Republican President.

(17) The foreign picture appears to be deteriorating with Russia gaining ground in her propaganda for peace as is shown by the winning back of Yugoslavia into the Russian communist fold.

There as a few bullish arguments, however, that keep me from feeling 100% sure of the bear market being underway already.

(1) Low priced stocks as shown by the Standard Statistic Average, are still below the 1946 highs. Normally the low priced stocks are given a whirl in every bull market before it is finally over.

(2) The leverage investment trusts, such as Tricontinental, are still selling at about the same discount that they were several years ago. Normally this discount is reduced or entirely eliminated as investors become more optimistic.

(3) Usually the steel group has a sharp advance for several months before the end of the bull market as in 1929 and 1937, but most of the steel stocks, like U. S. Steel and Bethlehem, have been trading in a rather narrow range for the last year. They should have a sharp rise in the near future if this pattern is to hold.

Rediscount Rate's Effectiveness

The Federal Reserve Board is apt to reduce not only the rediscount rate but also the reserve requirements in the near future. This may have a temporary stimulating effect but unfortunately, the historical record of lowering the rediscount rate at the beginning of bear markets is far from reassuring. In 1929 the average rediscount rate for the 12 Federal Reserve Banks, which was 5.08% in September, was lowered to 4.93% in November, 4.78% in December, and down to 2.67% by June 1931. Again in 1937 the Federal Reserve Board quickly lowered the rediscount rate to an average figure of 1.46% in September 1937 for 1.85% in August but the panic continued in both bear markets in spite of the Fed's quick action. Mr. Goldenweiser said that one thing he learned while Director of Research for the Federal Reserve Board was that "you can pull on a string (in credit control) but you can't push it."

A new era concept evidently can be accepted by the human brain only once in each generation. Within the last year or so, since we crossed the 1929 highs, many investors have bought and hung onto growth stocks with the same disregard of current earnings or dividends that was seen in the late 1920's. Since my career in Wall Street began then, I keep thinking "this is where I came in." General Electric's average price in 1929 was about 275 on the stock outstanding then and earnings were about \$9.00 a share, or the stock was selling about 30 times earnings. Television had just been invented, radio was becoming big business and the electrical age looked mighty promising to young analysts like myself who began to project earnings ahead for ten and twenty years (even as we do today) and our projections weren't too bad as far as earnings went, but — how far off the beam we were on price — earnings ratios! Earnings had to increase to almost \$30 a share on the old stock before investors were willing to pay the 1929 price again and this meant waiting just 25 years. In the meantime an investor could buy General Electric as recently as 1950 at seven times earnings to yield 9%. I still maintain that "people are crazier than anybody!" Price-earnings ratios are a matter of investor confidence. Let the investor begin to worry about Adolf Hitler, at he did in 1942, and you can buy American Telephone on a 9% basis. Let him worry about Joe Stalin, as he did in 1950 and you can purchase GE on a 9% basis.

Forecast Investor's Mood

The one thing that we have been able to count on in the past has been that something or somebody will cause price-earnings ratios to come tumbling down every now and then even on the sacred blue chips. The trick in successful investing is not so much to forecast earnings and dividends reasonably accurately, because many of us can do that, but to be able to forecast the average investor's mood a year or so ahead. In studying psychology at Yale, I was impressed with the regular rhythms of optimism and pessimism to which most people are subject. In physics we know that for every action there is an equal opposite reaction. It would be nice to think that we have created a bull market that will be "a thing of beauty and a joy forever." Unfortunately, we are dealing with earthmen not Martians, and earthmen have had the nasty habit of suddenly becoming fearful after periods of over optimism and wanting nothing but gold or cash for awhile as in 1932 and 1942. This bull market has been a record breaker in many ways and if we can correct the extreme optimism which is currently giving us 25 times earnings ratios for the growth stocks without a rather severe decline in the popular stocks in the not too distant future, it will be a neat trick.

I hasten to say that this has been a much more selective bull market than those of the past, and it may be possible to correct the stilt formations of the favorite growth stocks without hurting the price structure of the quiet investment stocks such as American Telephone and Woolworth, which still sell to yield around 5%.

Even at the peak in 1929 it was possible to buy Homestake at 88 and sell it at 160 in 1932, but in a bear market it is normally more profitable to ride through with a reduced commitment in common stocks rather than to try and be a genius and find the few stocks that can manage to swim upstream.

Buying Opportunity

Earnings this year on the Dow Jones Industrial Average should fall slightly below the \$35.78

shown in 1955. Current earnings are running at an annual rate of around \$34.00. If we use a multiplier of 15 which is slightly higher than that of 1929 and 1937 (taking the annual mean price) a price of 510 is obtained, and on \$34 earnings a price of 540. The market

could flash up as it did in 1929 and 1937 and sell for a few months above 600 if inflation psychology should take over but the odds appear to favor a better buying opportunity for the long term investor within the next twelve months.

A Bullish Stock Market View

By SIDNEY B. LURIE*

Partner, Josephthal & Company

Mr. Lurie asserts "the immediate business outlook is changing for the better," and advances bullish arguments supporting stock buying rather than the selling even though 1956 is a plateau year with little change in earnings and dividends. Recommends certain attractive issues and predicts that "the 1956 lows — but not necessarily the highs — already have been seen."

Ours really is a simple business for those who recognize two things: (1) There are only a few times each year when it is wise to be aggressive. (2) At all times, we have to be willing to accept a calculated risk. Ours is really a wonderful business — for it offers the best odds in the world: one out of two. You are either right or you are wrong!



Sidney B. Lurie

My bet is on the side of the premise that the 1956 lows — but not necessarily the highs — already have been seen. I'd much rather be a buyer than a seller of stocks for three broad reasons: (1) We're in an age of scientific business management whose planning is on a long-term basis. (2) This also is an age of tremendous technological revolution where new products create new markets and a demand for new plants. (3) Not only is our population growing fast, but it's shifting from one part of the country to another — the age complexion is changing and the birth rate is high. All of which means new markets for industry — now and later.

True, 1956 by and large is a plateau year in business with little aggregate change in earnings and dividends. And there is nothing speculatively exciting in stability. But there are no speculative excesses to be corrected; the market is down — not up. This has been a period in which everyone has been cautious — when everyone has been playing musical chairs. Furthermore, the immediate business outlook is changing for the better. In my opinion, today's doubts and fears later will give way to renewed confidence in business — and "confidence" is what makes stock prices.

Reasons Supporting Minority View

Here are some reasons in support of this minority view: (1) Something new has been added to the economy: the promise of an upturn in farm income after five years of decline. Sure, you and I have no control over the weather — one of the recent adverse factors. But farm prices are about 10% above their December lows, and the commodity experts think the worst has been seen. All this without the Soil Bank Program which is designed to reduce surpluses and maintain income. (2) I see improvement coming in another "soft spot" — automobiles — inasmuch as the ills which plagued 1956 — a previous year of over-production, lack of dramatic new styles — won't exist this

winter. Meanwhile, the industry is whittling inventories down to size — our fast-growing suburban population is creating a new source of demand — and the 52 million cars in use spell a large replacement market. (3) The projected moderate decline in business spending could easily be offset by steadily rising state, local and government expenditures. The highway program alone will result in at least \$1 billion more being spent in 1957 — and defense is a permanent business. Moreover, I still foresee a lift in consumer buying as a result of the new round of wage increases, this year's heavy debt repayments.

In short, the \$64,000 Question in my opinion is not whether to buy — but what! And there are a great many attractive issues. Here are a few to which I'd like to direct your attention.

Recommended Issues

International Harvester: is doing well despite the decline in farm income — and this year's results will be very close to the 1955 figures. The reason, of course, is the boom in trucks and construction equipment which represent over 60% of the company's sales. This means that an upturn in farm income next year would stimulate lagging divisions which contribute somewhat less than 30% of volume.

Chrysler Corporation: is a speculation on my premise of a better automobile year in 1957. In my opinion, there is only one question to be answered at these levels. Will the company go the way of Studebaker-Packard? In my opinion, Chrysler will remain one of the Big Three.

Brunswick-Balke-Collender is a speculation not only on our population growth — but the company has become the third largest factor in the school seating field — and it is a "bet" on our changed living habits, too. There is more leisure for the masses. Earnings this year may double the 1955 results.

The steels have been — and still are — the best statistical values on the board. Furthermore, I doubt that there will be any significant difference in the third quarter average operating rate whether there is — or isn't — a strike. There are bull arguments to either eventuality.

The Pocahontas Roads are as safe as well as interesting way of speculating on the coal industry's new lease on life. This because the rising demand for coal has crystallized their basic assets of good management, high traffic density, little or no passenger traffic, and profit margins which compare favorably with the vaunted chemical industry.

In many respects, the stock market is no different than life itself. It offers opportunity — but not security. In my opinion, this is a good time to take the same calculated risk you took when you got married. And maybe we'll all have a happy honeymoon.

*An address by Mr. Westcott before the New York Security Analysts, June 21, 1956.

*An address by Mr. Lurie before the New York Society of Security Analysts, Inc., June 21, 1956.

The Business Outlook For 1956 and Beyond

By LEON H. KEYSERLING*

Formerly Chairman of President Truman's Council of Economic Advisers. Economic Adviser to Henry Monitor Associates, Inc., Members of N. Y. Stock Exchange

Mr. Keyserling, denying the justification for calamity-mongering, expects total output to average considerably higher in 1957-59, than during 1954-56; with 1956 3-5% higher than last year. Notes cleaning-up of weak spots, along with expansionary effects of Federal spending, business investment in plant and equipment, and non-housing new construction. Commenting on President's illness, observes public is beginning to realize American economy is bigger than any individual or political party.

In May, 1953, the press carried my forecast that "the three years 1954-56 will average a considerably higher level of economic ac-



Leon Keyserling

activity than the three very good years 1951-53." Like numerous still earlier expressions of my basic belief that the post-World War II American economy would be more prone to stability and growth than in prewar times, this forecast was deemed "too optimistic." But in fact it was not. Measured in uniform 1955 prices, our total output averaged \$359 billion per year for the three years 1951-53, and it now appears that total output will average at least \$384 billion per year, or about 7% higher, for the three years 1954-56.

Gain in Total Output

Looking ahead, I now believe that our total output, measured in uniform prices, will average considerably higher for the three years 1957-59 than during the three years 1954-56. To be sure, performance since 1953 has not been as good as it should have been, nor is the outlook for performance immediately in prospect as good as it ought to be. This is because we have not been expanding up to the full potentials of our growing labor force and rapidly advancing productivity and technology. There is too much slack, and this hurts some much more than others. Nonetheless, in my opinion, there is no more justification now than in mid-1953 for the unreflective or reckless pronouncements of the calamity mongers. With reasoned confidence in the future, we should strive intelligently, through private and public economic policies, to make this future even better than current conditions augur.

Today, as in mid-1953, there are some weak spots in the economy. These mid-1953 weak spots, growing more serious in automobiles and inventories and farm income decline, touched off the 1953-54 economic recession. There are weak spots in the same areas now, plus a decline in residential construction. But with respect to automobiles and inventories, the outlook now does not seem as bleak as it did in 1953-54. Moreover, the major factor in the 1953-54 recession was the drastic slash in Federal spending, which in contrast is now inclining upward. And basic business investment in plant and equipment, and in new construction other than housing, is continuing its amazing advance, while consumer incomes and spending have recently reached new peaks and are almost certain

Any prolonged work stoppage in the steel industry would be unfortunate. We hope that this will be avoided. But never yet has any such stoppage, or the readjustment of wage rates through contract negotiation, interfered for any duration with the march of prosperity, despite customary alarmist predictions. The future, in this respect, will conform with the past.

Presidential Illness and the Investors

There has been much foolish talk, in many quarters, about President Eisenhower's health and his political intentions. I hope that he gets entirely well and runs, for it is in the nation's interest that the election be fought between the best men of both parties. But it is noteworthy that the reaction to the President's second illness, in the stock market and elsewhere, was less sharp than to his first. This is not because the second illness was less serious than the first, for in any event two illnesses are more consequential than one. Rather, it is because the business community and the public generally are regaining their perspective on the point that the American economy is bigger and better than any one man or any political party, and that the factors shaping our economic future are more profound than can be greatly influenced by any one individual. We have stopped behaving like children, and once again are becoming adult; it is important that this trend continue.

Stock speculation is always risky, and only those capable of absorbing losses should indulge.

Stock investment, adjusted to capabilities, will continue to be rewarding in consonance with overall economic developments in the long run. In these terms, and in view of recent corrections, good stocks are not "overpriced," because profits and dividends, production and consumption, will be higher in 1956 as a whole than in any previous year, and much higher in the years ahead.

C. Baumgartner Opens

(Special to THE FINANCIAL CHRONICLE)

SCOTTSBLUFF, Neb.—Casper Baumgartner is engaging in a securities business from offices at 1705 Broadway.

Burton M. Brown Opens

DALLAS, Tex.—Burton M. Brown is conducting a securities business from offices at 2802 San Medina Avenue.

Forms S. E. Dunn & Co.

DETROIT, Mich.—Simon E. Dunn is engaging in a securities business from offices in the Griswold Building under the firm name of S. E. Dunn & Company. Mr. Dunn was previously with Carr & Company and B. C. Morton & Co.

Talmage to Admit

Talmage & Co., 111 Broadway, New York City, members of the New York Stock Exchange, on July 5 will admit John E. Wadsworth to partnership. Mr. Wadsworth has been with the firm for some time.

On June 30 Leslie G. Schoenhart will retire from partnership in the firm.

Business Man's Bookshelf

Business Practices, Trade Position and Competition — Oswald Knauth — Columbia University Press, 2960 Broadway, New York 27, N. Y. (cloth), \$3.

Federal Excise Taxes — Project note No. 40 — The Tax Foundation, 30 Rockefeller Plaza, New York 20, N. Y. (paper), single copies free — quantity prices on request.

Proprietary Manufacturing Knowledge and the Requirements of National Defense — Machinery and Allied Products Institute and Council for Technological Advancement, 1200 18th Street, N. W., Washington 6, D. C. (paper), single copies free — quantity prices on request.

Resource and Output Trends in the United States Since 1870 — Moses Abramovitz — National Bureau of Economic Research, Inc., 26 Madison Avenue, New York 16, N. Y. (paper), 50c.

Two With John M. Flynn

(Special to THE FINANCIAL CHRONICLE)

SANTA BARBARA, Calif. — George Balogh and Robert E. Barry are now with John M. Flynn and Company, 3680 San Gabriel Lane.

This announcement appears as a matter of record only and is under no circumstances to be construed as an offering of these securities for sale, or as an offer to buy, any of such securities. The offering is made only by the Prospectus.

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June 27, 1956.

*Excerpts from a talk by Mr. Keyserling at opening of New Midtown Branch of Henry Monitor Associates, Inc., June 25, 1956.

The "New Look" in Purchasing To Achieve Cost Economies

By GEORGE E. STRINGFELLOW*
Senior Vice-President, Thomas A. Edison, Inc.
West Orange, N. J.

To overcome consumer rebellion against price increases, Mr. Stringfellow calls attention to sizable cost cutting opportunities present in purchasing—a major area of production—methods, providing wise purchasing, properly analyzed and scrutinized, as part of a program of organized research, is pursued. Recommends purchasing departments should: (1) be trained and staffed to reduce purchasing costs; (2) take advantage of "value buying" and the economies of standardization; and (3) filter out old and adopt new ideas and techniques which will return handsome profits.

The business barometer is at a healthy level. According to reports from the Department of Commerce and the Securities Exchange Commission, businessmen plan to spend a record of \$35 billion on new plants and equipment this year, topping their 1955 outlays by 22%.

A report made for the Federal Reserve Board by the University of Michigan states that consumers have extensive buying plans this year. This forecast takes into account the fact that another 10% of our population has moved into the \$5,000 annual income bracket. Thirty-five per cent of all consumer units are now in the \$5,000 or higher income bracket. Their buying interest is high, their confidence and their incomes are greater than last year.

Industry is building new production facilities at a record rate, with public utilities, petroleum, motor vehicle manufacturing, metal producers, machinery manufacturers, chemicals and railroads leading the list.

Not all the expenditure is for production, however. The largest single classification in the Securities and Exchange Commission's listing is concerned mainly with distribution and services. Expenditures this year for banks, bowling alleys, super markets, radio stations, and other facilities that help get goods and services to the consumer will be over \$10,630,000,000. These more than offset the slack in the sale of new automobiles and the building of new homes.

Industry spending is an expression of confidence that prosperity will continue and while big consumer spending produces high employment, spending for plants and equipment will provide even greater employment opportunities in the future.

There are more jobs than workers. This means higher wages have to be paid to get help and the cost is passed on by higher prices. But how long, you ask, can these increases be passed on before the consumer rebels? Remember what happened to rubber several years ago, and what happened to coffee subsequently?

Two Ways to Economies

Management must obviously find ways to maintain level prices. Broadly speaking, there are only two major areas of savings in industry:

- (1) Distribution.
- (2) Production.

Wise purchasing constitutes the major area of possible savings in cutting production costs to help

your company make a profit and stay in business. Let us consider the importance of wise purchasing in two typical business concerns assumed to be making 10% profit on their sales:

(1) Those of you who represent large manufacturing companies may find the cost of your purchased materials and services runs as high as 50 cents of your sales dollar, leaving 40 cents for labor, taxes, rent, sales expense, advertising, packaging, shipping, and 10 cents profit.

The purchasing agent who saves 2% of each 50 cents he spends, increases company profits to 11 cents per dollar of sales, a 10% profit increase. Assuming labor cost is 25% it would take 4% saving in labor to equal this saving and show the 10% profit increase.

(2) Those of you who represent supply companies or wholesalers may find the cost of your purchased materials runs 75% or more for your sales dollar, leaving 15 cents for taxes, rent, sales expense, advertising, shipping, and 10 cents profit.

The purchasing agent in this group who saves 1 1/2% of the 75 cents he spends, increases company profits to 11 cents per dollar of sales, a 10% profit increase. It would take 6 3/4% saving in all other expenses to equal this saving and show the 10% profit increase.

Corporations with aggressive and alert managements realize their purchases must be analyzed and scrutinized to cut their production costs.

Importance of "Purchase Analysis"

Research is now entering into a purchasing department's function. There are various terms used to describe this function, such as "purchase analysis" or "cost reduction." Until recently research depended more on the individual purchasing agent than on a program of organized research in his whole department. For instance, one person in the department might inform himself in a specialized field by reading or asking questions until he ultimately knew as much if not more than the salesman who called on him or the engineer who specified the item to be purchased. The trend is for the entire purchasing department to be adequately trained and staffed with a view toward reducing costs of materials and increasing company profits.

Most speakers use their own firms to illustrate their points. Inasmuch as Thomas A. Edison, Incorporated represents an unusual diversity of interests, I believe you'll find our experience informative. We, incidentally, make baby furniture, medical gases, high precision electronic equipment, aviation instruments, storage and primary batteries and voicewriters, to name a few.

Our purchasing department initiated research to reduce the high cost of sheet plastic used by our Edison Voicewriter Division for making recording discs. Specifica-

tions covering this material were based on the manufacturer's catalog dimensions and provided a yield of 17 discs per sheet. In reviewing the specifications with the vendor, our purchasing department discovered that sheets not trimmed to catalog size would yield 20 discs and thus cut the cost of this raw material 17.6%, at the same time eliminating an operation for the vendor.

Advantages of "Value Buying"

An alert purchasing agent with a research organization can take advantage of "value buying." Value buying is often the reverse of the lowest initial price policy. For example: a manufacturer was satisfied for years with a lacquer as specified by its engineering department. It cost less than competitive makes; a gallon covered 250 square feet. Through research the purchasing department found a better lacquer. It was higher priced, but a gallon covered nearly twice the surface at a lower cost per square foot than the less expensive lacquer.

Standardization is another method of cutting cost which the purchasing agent should employ. This requires close cooperation between the purchasing and engineering departments, starting at the drawing board stage. It is here that suggestions made by the purchasing agent, based on his experience, can often save money, and thus increase his company's profits. Induce the engineer to use standard materials. Such materials are manufactured to established specifications, at lower cost than custom-made materials. They offer advantages of uniform quality and lower inventories because of their availability. Your needs can be supplied in almost every instance by standard materials.

The new horizons opening in atomic energy, electronics, instrumentation, plastics, chemistry and automation are building an increasingly important role for the purchasing agent in management. Realizing this you will doubtless make the most of your opportunities.

Reflecting upon the tremendous strides purchasing agents have made in the past 10 years, I am confident you will filter out the old and adopt new ideas and new techniques which will return handsome profits to your respective corporations, enhance your own standing and render an intelligent service to the consumer public.

Your basic knowledge of business conditions within your industry as well as the economy of the nation will play an increasingly important part in your company's future. Yours is a future on which the spotlight is focused, which makes it a very bright future if you operate efficiently and help your company show a good profit.

Reynolds & Co. Opens Boston Branch Office

BOSTON, Mass.—Reynolds & Co., members of the New York Stock Exchange have opened a branch office at 19 Congress St. under the management of Edward S. Munro.

New Reynolds Branch

RIDGEWOOD, N. J.—Reynolds & Co. have opened a branch office at 40 Chestnut Street under the direction of Robert Eichler.

Two With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—E. Thomas Dewey, Jr. and Talbot P. Kendall, Jr. are now with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.

Role of the Regional Exchange

By J. SINCLAIR ARMSTRONG*
Chairman, Securities and Exchange Commission

SEC chief emphasizes importance of American Exchange as proving ground, and bridge between unlisted status and ultimate growth to Big Board trading. Cites statistics showing its important share of the public's stock-transaction business. Urges acceptance of responsibilities to forestall factors posing great dangers to capital markets.

First, you must realize the importance to the capital markets of exchanges such as yours. You are in competition with the giant New York Stock Exchange. You account for 21.9% of all the transactions on listed and unlisted trading stocks, and the market value of your securities is almost 8% of all exchange securities. The



J. Sinclair Armstrong

market you provide is a proving ground for the securities of many growing companies. It is a bridge, and a very vital one, often, between unlisted status and the ultimate growth to stature of trading on the big board. Your market is also the established permanent trading area for the stocks of many companies, large and not so large. The market you and the regional exchanges provide for trading in securities may be better, more liquid and more satisfactory for the shares of particular companies than listing on the big board. The emphasis the Securities and Exchange Commission is placing on the importance of exchanges such as yours is shown by the on-the-spot studies made by Commissioners and staff within the past year of the operation of the American Boston, Midwest, Philadelphia, Salt Lake, San Francisco and Los Angeles exchanges.

Second, you are doing an important volume of the public's stock-transactions business. Let me give you a few brief figures. Here are the market value of transactions and the number of shares traded on the American Stock Exchange in certain earlier years and recently.

Year	Dollar Vol. (millions)	Shares Sold (in millions)
1935	\$1,205	85
1945	1,728	142
1953	1,125	110
1954	1,873	170
1955	2,593	244
1956 first 4 mos.	995	88

For the year 1955, and to date in 1956, this volume represents more than half of the market value, and almost two-thirds of the number of shares, of all securities traded on all exchanges other than the New York Stock Exchange.

The Public Interest

Third, this volume of the public's business affects you with an important public interest which you must jealously protect against the abuses of the public that took place in the last great era of public speculation in the stock market in the 1920's and early 1930's before the Securities and Exchange Commission was established.

Dangers to Capital Markets

There are a number of factors at work in the markets today which pose grave dangers to the capital markets. First is the atmosphere of speculation, brought about by the very great economic activity of the past few years. A stock

market should be a medium for investment, not just of pure speculation.

Second, because of this atmosphere, there is an observable tendency for people to be more lax in adhering to the Federal Securities laws, the rules of the Commission under the Securities Act and the Exchange Act, and the self-governing rules of the stock exchanges and the National Association of Securities Dealers. People are more careless and some are deliberately in violation.

So I urge you, guard the reputation of your American Stock Exchange. If your Exchange is used only for purely speculative activity and the public gets hurt, you will reap the adverse public reaction. I am sure that you all recognize the need for supporting your officials in their efforts to obtain compliance with your American Stock Exchange rules. I am equally certain that you will all support the Securities and Exchange Commission in our investigations of manipulation, fraud and other violations, our efforts to assure compliance with our rules under the Federal securities laws, and our efforts to bring malefactors in the public security markets to book, and that you will not knowingly let the Exchange become a medium for illegal distributions or illegal activity.

Importance of Exchanges

Finally, let me relate the importance of the stock exchanges in the capital markets to the capital markets as a whole. Prices of outstanding securities determined by the buying and selling public in the free, open, auction markets of the stock exchanges of this country have an important bearing on prices that may be arrived at when corporations go to the capital markets to sell new issues of securities for the purpose of raising new capital. The amounts of new capital that will have to be raised by corporations in the years ahead to sustain the needs of our increasing population, our rising living standard, our dynamic expanding economy, and our responsibilities for the defense of our country and the free world, are far larger than anything the capital markets have provided in the past. Many billions of dollars will be needed. The channeling of these enormous amounts from the savings of the American people to American corporations will be the responsibility of the capital markets, in which the stock exchanges play a vital part. You of the American Stock Exchange will succeed in your part of the job which the capital markets must perform if you conduct your business so that it merits the continued confidence which the investing public has shown in the past few years. But if anything done in the market destroys that confidence of the investing public, the American free enterprise system will be the loser.

M. Crosthwaite Opens

NEW ORLEANS, La.—Morgan Crosthwaite is engaging in a securities business from offices at 722 St. Louis Street.

New Walston Branch

DENVER, Colo.—Walston & Co., Inc. have opened a branch in the Mile High Center under the direction of Norman Davis.

*An address by Mr. Stringfellow before the National Assn. of Purchasing Agents Convention, Cleveland, Ohio.

*A talk by Mr. Armstrong at the Annual Outing of the American Stock Exchange, Sunningdale Country Club, Scarsdale, N. Y., June 19, 1956.

Life Insurance Investments And the Mortgage Market

By JAMES J. O'LEARY*

Director of Investment Research, Life Insurance
Association of America

Investment economist does not anticipate severe change in over-all residential mortgage funds availability, including FHA-VA mortgage money, this year, even though new non-farm commitments made by life companies declined slightly in the first quarter, compared to 1955. Dr. O'Leary praises the Federal Reserve; expects slowing down and possible easing of credit tightening; refers to tendency to buy high grade bonds directly from issuers due to attractive yield compared to FHA-VA mortgages; notes increased dependence upon cash flow, which amounts to \$10-12 billion per year, due to decreased availability of assets to sell to meet mortgages; the heavy demand for funds from business and industry; and heavy backlog of forward commitments. Explains investment flow is determined by desire to maximize yield and other factors.

I would like to discuss three main questions: (1) What are the basic forces determining the investments of life insurance companies? (2) What is the trend in life company investments in mortgages? and (3) How do policy actions by the Federal Government affect life company mortgage investments? The largest part of what I have to say will deal with this final question.

The Forces Determining Life Insurance Company Investments

First, what are the forces determining life insurance company investments? The answer to this question is fundamental to an understanding of our activity in the mortgage market.

At the present time the assets of life insurance companies are increasing at a rate of nearly \$6 billion each year. This figure is the net increase and does not, of course, reflect the total volume of funds life insurance companies have available for investment each year because it does not take account of repayments of mortgages, sinking fund payments on corporate securities, bond maturities, and other similar items. Studies which we have made indicate that the gross flow of funds which life companies have available for investment each year now amount to \$10-\$12 billion. This is a staggering figure. At the same time it is a measure of the enormous contribution which life insurance companies now make to the economic growth and higher living standards enjoyed by the American people through the reinvestment of life insurance savings.

Perhaps the unique characteristic of the life insurance companies in their investment operation is the wide variety of investment outlets into which their funds are directed. I find that mortgage bankers frequently fail to appreciate that life insurance companies not only have the option to invest funds in mortgages, whether they be Government-insured or guaranteed, conventional, or within the conventional category whether they be commercial or industrial, but they are also one of the most important providers of capital funds to business and industry, to public utilities, to railroads, to the Federal, state and local governments, to name the more important outlets. There is no other investing institution to my knowledge which has the latitude to invest its funds in so many ways.

*An address by Dr. O'Leary before the Mortgage Bankers Association of Florida Meeting, Ponte Vedra Beach, Fla., May 25, 1956.

May I say also, there is no other investing institution which is expected by so many different users of capital funds to meet and fully satisfy their demands.

Maximize Investment Yield

What are the basic forces determining where these funds flow? I am sure that you appreciate the answer to this question. All life insurance companies, whether stock or mutual, bend every effort to realize the highest yield on their investments without the assumption of undue investment risk. The financial officers of life insurance companies are a highly intelligent, alert group of men who compete fiercely with each other to achieve the best record of yields on investments. This competition exists not only between companies but also within companies as between the bond and mortgage departments. It is not surprising, therefore, that in a period of changing interest rates, yield differentials between various types of investments are watched carefully and the flow of funds is altered accordingly.

Beyond the impulse of yield, however, is the fact that most life insurance companies are convinced of the desirability of maintaining a proper diversification of their investments. In every company there is some accepted standard, at any given point of time, of the desirable goal that the company should have for its mortgage holdings in the different categories. There is likewise a similar goal for the various types of securities held by the company. Ideas on what the proper diversification is differ as between individual companies, and these ideas are altered over a period of time, but nonetheless diversification is an important consideration. In particular, during the past decade many life companies have changed their thinking considerably about the proper proportion of their assets in mortgages and Government securities.

Still another force to keep in mind is that life insurance companies are truly long-term investors. This is natural in view of the long-run character of life insurance contracts. This means, therefore, that life insurance companies are basically interested in acquiring investments which will provide an attractive rate of return over a period of time. They are much less interested than most investors in capital gains aspects of the investment process.

Finally, I would be remiss not to indicate that one of the motivating forces behind the flow of life insurance funds into investment is a sense of social responsibility on the part of life insurance companies. In an economy such as ours, in which free markets prevail for the most part, the mere fact that life insurance companies direct their funds to the points of highest yield indicates that they are responsive to the demands for capital from the vari-

ous parts of the economy. Beyond this, however, most top-flight executives of life insurance companies realize that there are sometimes social responsibility questions which cannot be answered solely by market forces. There have been times in recent years, for example, when life companies purchased Government securities because they were convinced it was the right thing to do even though the yields were unattractive.

Trends in Life Insurance Investments and Mortgages

Let me turn now to a brief discussion of trends in life insurance company investments in the mortgage field. From your point of view, I think that these trends should be most encouraging.

At the end of 1929, the life insurance companies of the country held \$5.2 billion of nonfarm mortgages which represented 30% of total assets. The year 1929 represented the high point for nonfarm mortgages as a percent of assets. This relationship declined steadily until 1946, at which time nonfarm mortgage holdings of life companies were about \$6.5 billion or just short of 15% of total assets. The story since 1946 is a familiar one to you, I am sure, in that by the end of 1955 life company holdings of nonfarm mortgages amounted to over \$27 billion or 30% of total assets. Unless we witness an important change in the nature of our national economy, I do not believe that this trend is anywhere nearly at an end. Here are some further figures which I think you will find interesting and reassuring.

Last year the life insurance companies made \$6 billion non

farm mortgage loans, the largest amount they have ever made in a single year. Of this total, \$2.8 billion were Government-insured or guaranteed residential mortgage loans and about \$2 billion were uninsured residential loans. The remaining \$1.2 billion were business and industrial mortgage loans. During the decade 1946-1955 inclusive, the life insurance companies made \$38.1 billion of nonfarm mortgage loans. A little over \$9 billion of this total were FHA loans, \$7.7 billion were VA loans and \$21.4 billion were "conventional." In the conventional category about 60% were residential loans. Throughout the 10-year period, therefore, the life companies made approximately \$29 billion of residential mortgage loans. Of the total of \$56.8 billion of FHA and VA mortgage loans made by all lenders in the period 1946-1955, the life insurance companies made about 29%.

This to me is a remarkable record. But so much for figures. I would like to say to you, however, that along with this trend toward a larger percentage of mortgages in life insurance company portfolios the life insurance business has come to realize more and more the great importance of having a top-notch organization to originate and service the mortgages which they hold. I have detected an ever greater desire on the part of most companies to keep their loan correspondent system strong. Perhaps the most important aspect of this is a recognition that to be strong a correspondent organization must have a fairly regular flow of funds on which it can depend. This brings us then to the question of how Government policy affects the

flow of life insurance company funds into mortgage investments.

How Does Government Policy Affect Life Insurance Company Mortgage Investments?

Perhaps the best way to outline how Government policy affects life insurance company mortgage investments is to analyze three periods in the history of the mortgage market and the capital market as a whole. The three periods which I have chosen are, first, the tight money situation in the first six months of 1953; second, the period of ease, or relative ease from the late Summer of 1953 throughout most of 1955; and, third, the current situation.

First, I would like to give you briefly my own conception of the developments in the Spring of 1953 as they affected the mortgage market, with particular attention to life insurance investments in the mortgage market. At the time the new Administration came into power there was a great deal of agreement in Washington and elsewhere that the country was in for another round of inflationary boom. The Federal Reserve was in process of tightening up on commercial bank reserves in an effort to restrain business "exuberance." The big new development, however, was the program undertaken by the new Treasury to sell long-term bonds.

Effect of Long-Terms

Early in February, 1953, Treasury officials consulted with the life insurance business and made it clear that they would like to sell some long-term bonds to nonbank investors such as life insurance

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NEW ISSUES

Lake Ontario Portland Cement Company Limited

(Incorporated under the laws of Canada)

\$6,497,400 (Canadian) 5½% Debentures due June 30, 1971

232,050 5% Convertible Preferred Shares

(Cumulative only from July 1, 1958)
Par Value \$10 (Canadian) Per Share

696,150 Common Shares

Par Value \$1 (Canadian) Per Share

Offered only in the ratio of \$700 (Canadian) principal amount of Debentures, 25 Convertible Preferred Shares and 75 Common Shares, and integral multiples of such principal amount and numbers of shares respectively.

Price in United States Dollars

\$687.95 Per \$700 (Canadian) principal amount Debentures
(plus accrued interest)

\$10.18 Per Convertible Preferred Share

\$1.02 Per Common Share

Copies of the Prospectus, as filed under the Companies Act of Canada, will be furnished promptly upon request by such of the undersigned, including the undersigned, as may lawfully offer these securities in such State.

Kidder, Peabody & Co.

Simultaneously with the offering in the United States, as set forth in the Prospectus, a portion of the Debentures, Convertible Preferred Shares and Common Shares are being offered for sale in Canada by a group of Canadian Underwriters including

Nesbitt, Thomson and Company, Limited

June 28, 1956.

Investment Policy Implications While at the Crossroads

By ROGER F. MURRAY*

Associate Dean of the Graduate School of Business,
Columbia University
Consultant, Bankers Trust Co., New York City

Well-known investment analyst assesses the economic picture presented by the "true advocate of the dynamic American economy credo" and the gloom and doom prophet, and offers these short-term views: (1) capital boom will be firm enough to carry through the current uncertainty and modest inventory liquidation period; (2) resurging business and consumer spending may appear by the year's turn, and might cause a renewal of the upward drift in rates, though, in the process, money market will be less tight; (3) this, then, should make it worthwhile to own some Treasury bills and certificates, and not become committed far ahead in mortgages; and (4) case for orderly accumulation of common stocks for dollar averaging is still sound. Advances five reasons supporting long-term investment policy based upon assumption of widely fluctuating interest rates over short-time periods, and irregular fluctuating economic growth and progress. Sees need for liquid, maneuverable portfolio and use of split dividends for thrift depositors.

In the management of the earning assets of our institutions, we normally think of making a great many individual decisions on the basis of specific sets of facts and without too much regard for really long-term policy considerations. My title may sound overly dramatic, therefore, because it incorporates the idea of our being under pressure to make a basic, single choice or major policy decision.



Roger F. Murray

On a moment's reflection, however, I think you will agree that we cannot escape formulating a consistent answer to a series of closely related questions. For instance, is this the time to accumulate large holdings of Treasury 3s against the day when they will be quoted at a substantial premium and their immunity from call will be important? Should the pace of mortgage lending be accelerated in anticipation that the supply of loans will be inadequate relative to the heavy flow of funds into the thrift institutions? Should common stocks be approached with caution? Is this the time to be less active in continuing the competitive race by emphasizing higher dividend rates to depositors? An affirmative answer to this series of questions reflects an approach to investment policy considerations which many people would call too orthodox and old-fashioned. This response seems to imply that we have not necessarily found the formula for economic stability and steady, continuous growth.

Optimistic Economic Picture Summarized

In contrast, you have all heard at great length on many occasions about the potentialities of the dynamic American economy. These expositions focus on the revolutionary effects of technological developments in industry, the explosive pace of population changes, the stimulus to capital investment of wage rates which tend to advance more rapidly than productivity, and the basically inflationary pressures generated by our efforts to sustain a rising standard of living while carrying a heavy national defense program. If one adds all of these factors together, with the appro-

priate allusion to the supposed conversion of business men to taking a longer term point of view, one can look forward with keen anticipation to the dynamic '60s in which the housing of our rapidly expanding population and the supplying of related services will place tremendous demands upon the capital markets and the savings flow.

The picture of the dynamic American economy entering into a new era of uninterrupted growth can be presented very persuasively. This is a fresh approach, as modern as the electronic computer and as stimulating to the imagination as the latest industrial research laboratory. With the alleged built-in stabilizers cushioning any declining tendencies which may develop, and with all of these dynamic forces at work in the direction of growth, we can contemplate a high spending economy which is perpetually bursting at the seams. Presumably, the insistent demand for capital will outrun the flow of funds through the major thrift institutions with the result that interest rates will be pushed upward and credit policy will have to be restrictive most of the time.

If one is convinced by this line of reasoning, he must come up with distinctly negative answers to the initial series of questions: Treasury 3s are unattractive; there is no hurry about lining up mortgage loans; common stocks hold no important risks; and management should not hesitate to move aggressively on raising dividend rates to depositors. The true advocate of the dynamic American economy credo, if he is at all consistent in applying it to investment policy, comes to substantially opposite conclusions from those reached by the orthodox and old-fashioned observer of the same economic scene.

The conclusion that we are in at least a different era, even though it may not be completely new, is strongly supported by the record of the modest corrections which occurred in 1948-49 and in 1953-54, when rolling readjustments were taken in stride. It is undeniable that these modest interruptions in the growth of economic activity represent a very pleasant and gratifying contrast to the types of major collapses which have typically followed other periods of wartime inflation. In looking to the future, moreover, we cannot argue against the fact of a major shift in population trends nor should we underestimate the great vitality of the American business system.

The issue, however, is not between the extreme points of view of the wild-eyed optimist on the one hand and of the prophet of

gloom and doom on the other. The particular crossroads which we now face in investment policy offers a choice between the judgment that we inevitably face extended periods of slackness and easy money in the capital markets or the conviction that periods like the June, 1953, and April, 1956, have set a pattern of rates which we should expect practically all of the time. During each period of comparatively tight money, we have had the problem of trying to judge its duration and severity. The present is no exception and we must face up to this question if we are to arrive at reasonably intelligent portfolio management decisions. Let us consider first the near-term outlook.

The Near-Term Outlook

What, then, are the prospects during the next six months or more for interest rates on long-term loans and investments? Have we finished the 1955-56 period of rising interest rates? What are the chances of a recurrence of similar pressures on the capital market in the near future? After seeing the February rally in the bond market turn out to be merely the forerunner of the April decline, all of us are naturally in a skeptical frame of mind regarding the recent recovery.

There are clearly enough soft spots in the economy to justify the observation that the business outlook is mixed. In fact, if it were not for the high level of business outlays for plant and equipment, we would probably be in a period of adjustment such as that which began in the latter part of 1953. However, the rising rate of business investment, including the accumulation of inventory, has created a sufficiently strong tone to the market for producers' durable goods to prevent any real slackening in the total business picture.

Although we now have the benefit of the useful statistics gathered jointly by the Securities and Exchange Commission and the Department of Commerce and the important McGraw-Hill survey of expectations, we still lack the ability to make really reliable forecasts of the level of business investment. Taking the statistics and trends at face value, we should recognize that there appear to be signs only of growth in the level of capital investment. Furthermore, the record of recent years appears to indicate a greater degree of stability in business capital outlays. In the 1949 and 1954 adjustments, the declines were no greater than in the general range of industrial production. There seems to be a good foundation for the belief that the capital expenditure boom will be firm enough to carry us through the current period of uncertainty and also through a modest liquidation of inventories.

Renewed Consumer Durable Purchases

We may plausibly conclude, therefore, that we have already seen most of the softness in the business picture and that with the passage of time we should expect a resumption of more active consumer spending on durable goods. Frankly, I find it difficult to develop much conviction on this point although on balance it seems likely that we shall be able to work down inventories and stimulate more active consumer spending before the end of the year. In the process, of course, there will undoubtedly be a less urgent demand for credit and for investment money than has been the case during the past 12 months or more. If this is a valid assumption, we might expect relative stability in the bond market and in the level of mortgage yields for another few months. There will still be the distinct possibility, however, that tight money pres-

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Outlook for Mortgage Lending And General Business Conditions

By CLARENCE G. MICHALIS*

Chairman, The Seamen's Bank for Savings
President, Savings Bank Association of New York State

Seamen's Bank Chairman anticipates business improvement toward the latter part of the year on the basis of relatively little change shown in industrial production, plant expansion investment, employment and G. N. P. Considers the soft spots and possibility of further adjustments in store but finds "there is so much underlying strength in the current situation that it is difficult to foresee any course for excessive fear—only the maintenance of constant caution." Credits insured mortgages on a national basis for increasing mortgage portfolio ratio and extending mortgage market beyond the boundaries of local legal market. In viewing mortgage-extension dependence upon deposit increase, payoffs, and other increases in assets, Mr. Michalis believes continued high mortgage ratio will depend upon whether deposits increase as rapidly in the future as in the past.

To get a good perspective I shall take you back to 1945, when the country was just emerging from the long depression and World



C. G. Michalis

War II. New York State Savings Banks had assets of nine billion, of which 62% was invested in government bonds, and 29% in mortgages. Just fifteen years before, in 1930, 62% of assets had been invested in mortgages, but the decline in this percentage was a natural result of the limited building that had taken place over the period, and finally of the war, when every available dollar was put into government bonds to help finance the war effort. Dividends paid by the banks had shrunk to 1½% per annum, and the problem facing the banks was clear. Their competitive position with other forms of thrift had to be maintained or improved. This meant that earnings had to be increased so that the rate of dividends could be raised, and if that could be accomplished quickly, so much the better.

In this situation it was natural for the banks to turn to the mortgage market, for, traditionally, this is the investment that has produced for them the highest income, and has enabled the payment of fairly liberal dividends to their depositors.

The Savings Banks began to acquire this type of investment in quantity, both from the cash available from increasing deposits, and from cash realized from the sale of low interest yield government securities. The mortgage market was quick to feel the impact of this demand, and interest rates were forced down to as low as 3% for prime loans. By 1950 the assets of the banks were almost \$13 billion, and the investment in mortgages had increased to about 40%, still much lower than considered desirable.

Geographical Expansion of Mortgages

The mortgages available to the banks were far too limited in supply, a dangerous situation, since it must inevitably lead to a reduction of standards, and a lowering of quality in this particular type of asset in the portfolios of the banks. It was obvious that lending activities would have to extend beyond the boundaries of the local legal market or the

existing mortgage market would be completely overwhelmed.

The necessary legislation was passed, and the banks first began to make loans on FHA insured mortgages on a national basis in 1950, later in 1951 being permitted to purchase VA guaranteed mortgages by another act of the legislature. Thus a new field of investment was opened to the savings banks in which they could secure a large amount of low risk assets at desirable yields, and which would enable them to improve their earning in order to maintain a necessary competitive dividend position with other forms of thrift. At the same time funds were furnished various sections of the country which badly needed housing and in which there were not sufficient local funds for the purpose.

Partly as a result of this expansion of mortgage powers it is of interest to learn that on Dec. 31, 1955 the assets of the savings banks were more than \$18 billion, double that of ten years ago, of which \$11 billion or 61% were invested in mortgages, and of which the savings banks system can well be proud. If I may, I should like to give you just a few figures to indicate the magnitude of the job performed.

In dollars, New York State savings banks at the close of 1955 had almost \$8½ billion more in mortgages than they had ten years earlier. To achieve this increase they had actually invested during the period, about \$13 billion, or more than 150% of the actual gain in holdings, the difference is accounted for by payoffs and amortization received.

Another thing of which the savings banks are justly proud is the fact that they are by long odds, the primary source of mortgage capital in New York State, accounting for 54% of total mortgages held by the major financial institutions on properties located within the state. Savings and loan associations account for 17%, life insurance companies 15% and commercial banks 14%.

So much for the events of the last ten years. They indicate the large volume of funds invested in mortgages during the decade but the interesting thing is the source of those funds. The fact that the bond portfolio including governments, various types of bonds, and other assets increased by half a billion dollars during this time, indicating that the funds did not ultimately come from these assets, although bonds undoubtedly were switched from time to time for temporary requirements. The gain was financed entirely by the increase in deposits and retained earnings, which shows that it was made possible only by the excellent state of the

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*An address by Dean Murray at the Savings Banks' Association Annual Conference, Spring Lake, N. J., June 23, 1956.

*From an address by Mr. Michalis before the New York State Title Association, New York City, June 13, 1956.

Sheraton Corporation of America

—20,000 Rooms Over the Fee

By IRA U. COBLEIGH
Enterprise Economist

A current look at the largest hotel chain in the world; and its effective methods for gleaming dividends from hospitality, and capital gains from sagacity.

Time was when the main (and often the only) inn or hotel in any small or medium sized city was a family owned hostelry, replete with spittoons



Ira U. Cobleigh

in all but the sleeper bayous of our urban civilization. Although 85% of our 15,000 hotels are still independently owned, the same streamlining you will note in shopping districts, office buildings and supermarkets you now find in hotels, with the modern pace set by smartly managed chains such as Sheraton Corporation, an elegant \$250 million aggregation of some of the sleekest, newest, and most famous hostelries in the United States and Canada.

Back in 1937 a group of investment trusts joined in a series of real estate purchases, including the 200 room Stonehaven Hotel in Springfield, Mass. This first hotel acquisition set the future direction for the enterprise; and the trusts were, in due course, merged into Sheraton Corporation of America. In the words of its President, Mr. Ernest Henderson: "The guiding principle has been to try and make advantageous purchases, and to enhance the value of these acquisitions by providing the most efficient managements available. By reinvesting earnings and particularly the sizeable tax free earnings set aside for 'depreciation,' the company was able to expand." That last phrase was a classic understatement; for whereas in 1941 the asset value per share was only 33c, today, Sheraton's net assets (about \$108 million at estimated market value after deducting all liabilities) work out to about \$27.50 per share, on the 3,700,000 shares outstanding.

On April 1, 1956, this burgeoning Sheraton chain had grown to 31 hotels with about 20,100 rooms, including such well known ones as the Sheraton-Town House in Los Angeles, the Sheraton-Palace in San Francisco, the Sheraton-Blackstone in Chicago, the Park-Sheraton and Sheraton-Astor in New York, the Sheraton Plaza in Boston, the Sheraton-Carlton in Washington, and the Sheraton-Mt. Royal in Montreal. In addition, Sheraton Corp. owns a 25% interest in the Hotel Sherman in Chicago; office property including the Sheraton buildings in Washington, D. C. and Boston, Mass., Rittenhouse Square Building in Philadelphia and a 55 year operating lease on the Sheraton-Whitehall Building in New York; plus a 60% stock interest in Thompson Industries, manufacturer of metal stampings and copper wire.

To this impressive group of earnings assets, grossing above \$120 million a year, there was added on May 22, 1956 the well known Eppley Hotel chain, purchased for \$30 million, payable over 15 years. This chain includes the 1,500 room William Penn Hotel in Pittsburgh and the fa-

mous Seelbach in Louisville, Ky. (500 rooms); and brings the Sheraton total up to 54 hotels, and 24,360 rooms.

That roughly paints the Sheraton picture at the moment; but don't get the idea the Sheraton is an octopus on the prowl ready to snap up any, or every, hotel offered. Far from it. Hotels are its inventory—its stock in trade—and Sheraton is equally willing to buy at what it regards a sound price, or sell at a satisfactory profit. In the course of almost any year it has done both. It has, in recent years, sold the Bancroft in Worcester, the Sheraton-Daytona at Daytona Beach, Fla.; and last year sold the Ford Hotel (Toronto) which stood on its books at \$600,000, for \$3,200,000. It is, right now, building new hotels in Dallas and Philadelphia.

The Sheraton basic formula for purchase is quite simple. A hotel should earn between 10% and 12% on the cost of the investment after depreciation and interest; and without taking into account possible appreciation in value. As a matter of fact, there has, since the middle '30s been a virtually uninterrupted rising trend in the price of well located and maintained hotel property; a trend that has enabled Sheraton to deliver, quite consistently, earnings from capital gains to its stockholders. On this point the management estimated on April 1, 1956 that book value (\$158 million), understated by some \$65 million, the total market value of Sheraton assets. By virtue of this sizeable appreciation factor, and repeated payments of dividends representing capital gain, Sheraton common has come to be favored as a hedge against inflation.

Up to the minute news on Sheraton would include the building of new hotel-motels in Tarrytown, and Binghamton, N. Y., and the finest and most modern designed hotel in Alabama, the Sheraton-Florence Hotel. Here at Florence, Alabama, strategic industrial center of the tri-state section of Alabama, Mississippi, and Tennessee, there will rise an ultra plush 150 room, \$2,500,000 hotel, complete with swimming pool and cabanas. A novel feature of this unit is the financing. Under date of May 23, 1956, the City of Florence offered (through Gearhart & Otis Inc. and Joseph Farroll & Co. underwriters) at par, \$2,500,000 5% First Mortgage Industrial Development Revenue Bonds due serially 1959/1986. These bonds are Federal tax exempt, and provide an unusual 5% yield. They are limited obligations of this City of Florence, secured by a first mortgage on the land and the hotel, with interest and principal payable out of revenues from a 30-year lease of the property by Sheraton - Florence Corporation. To these basic elements of security there has been added a "kicker,"—sort of a Sheraton with the fringe on the top—for with each \$1,000 bond, the purchaser also buys 100 shares of Sheraton Florence Corporation common for 1c per share — \$1 for the package. Quite a municipal bond you must admit!

This unique security, the Industrial Development Revenue Bond with a stock privilege is not new. It was originated by Frederick D. Gearhart, Jr. (of Gearhart & Otis Inc.) who first employed the technique in the financing of Stylon Corporation in 1952 by a 5% Florence Alabama Bond, convertible into Stylon stock. The conversion

became so attractive that those bonds sell today at 280 bid! Probably the highest priced municipal bond in America! (Fact is this hybrid financing could catch on, in a big way, with industry-eager municipalities.)

But, I digress. It's Sheraton Corp., not Sheraton Florence we were stressing; and among securities of the parent you can buy are Sheraton Corporation 6½% Income Debenture due 1980 at 98, an issue of 6% Debentures due 1979 at 100, the 4¾% Convertible Debentures due 1967 (at 90) and common listed N. Y. S. E. now selling at 15 with a 60c cash dividend plus 2% in stock, payable Aug. 1, 1956. Dividends have been regularly paid on common since 1946, and there have been a number of stock dividends. Earnings depend somewhat on capital gains (which amounted to \$1.28 per share for fiscal year ended 4-30-55). The stock sells at a substantial discount from indicated asset value—so much so that the Corporation has been buying in its own stock.

The management at Sheraton is brisk, effective, and has proved competent not only in smart merchandising and operating efficiency, but in shrewd purchase and sale of its real property. In few industrial shares do you find such an ordered program to create earning power consistently from both regular operations, and capital gains, as in SHR.

F. I. du Pont Admits

Francis I. du Pont & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on July 15 will admit John P. Cluett to limited partnership.

Treves & Co. Admits

James G. Nuland will become a partner in Treves & Co., 40 Wall Street, New York City, members of the New York Stock Exchange, on July 1.

With FIF Management

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, Calif. — Lola L. Turner and Robert R. Miller, now associated with FIF Management Corporation. Miss Turner previously conducted her own investment business in San Jose. Mr. Miller was with Shelley, Roberts & Co.

York Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif. — George A. Stevenson is now with York & Co., 235 Montgomery St., members of the San Francisco Stock Exchange.

With T. Nelson O'Rourke

(Special to THE FINANCIAL CHRONICLE)

DAYTONA BEACH, Fla. — Thomas N. O'Rourke, Jr. has joined the staff of T. Nelson O'Rourke, Inc., 533 Seabreeze Boulevard, members of the Midwest Stock Exchange.

Two With E. H. Hansen

(Special to THE FINANCIAL CHRONICLE)

WHITTIER, Calif. — Cleo C. Johnston and Lola B. Roche are now with E. H. Hansen & Co., 124 North Bright Avenue.

This advertisement is not an offer to sell or a solicitation of an offer to buy these securities.
The offering is made only by the Prospectus.

New Issue

\$12,000,000

Canada Dry Ginger Ale, Incorporated

Twenty Year 4% Sinking Fund Debentures, due 1976

Dated June 1, 1956



Due June 1, 1976

Price 100% and accrued interest

Copies of the Prospectus may be obtained from such of the undersigned and others as are qualified to act as dealers in securities in this State.

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Stetson Securities Corporation

June 27, 1956

THE MARKET... AND YOU

By WALLACE STREETE

Final Congressional action on the Federal highway bill plus the hopes of a compromise settlement of the steel wage talks were able to snap the stock market out of its doldrums this week, but it wasn't enough to start any general upturn and the list still suffered from widespread neglect from both sellers and buyers.

Cement issues were particularly outstanding since, despite their persistent progress for some years now, they were able to join together in the new highs list with far more unanimity than the other groups in at least momentary favor.

Steels seemed to have a hard time making up their mind whether a strike at this junction would enhance the prospects for fall business holding high, or whether it would be too costly to keep earnings reports at their fat recent levels. All the uncertainty was rather at odds with the age-old market adage not to sell on strike news.

Summer Rally Awaited

High hopes were still rampant that the stock market would put on some sort of sizable summer rally sometime within the next two months once the steel wage talks settle down to some decision either way. It was based more on the fact that such a rally is traditional than on concrete economic developments. One of the expectations is that the auto makers will rush out their new lines earlier than usual — some setting late August or early September for the introductions — with the result that this sagging industry would snap out of its doldrums and snap back lustily in the final months of the year.

Market commentators were generally agreed that the well-deflated auto issues were more of a buy than a sale even though it is possible that they could be acquired a point or two cheaper if the market runs into any real troubles. Chrysler is about as well deflated as any of them, down more than 20 points under its 1956 high and nearly 40 points from its 1955 peak. Chrysler earnings for this year are expected to be rather poor reading which the stock has been discounting. Ford, although disappointing in not having rebounded to the offering price since it was listed, has been holding to a comparatively narrow range of around a dozen points, al-

though it, too, is not expected to offer any fabulous news to the holders in this year's report.

The Summer Stocks Mixed

The Summer stocks—brewing, soft drinks and air conditioning—made little progress against the uncertain background of the market generally. But, as some of the market students were quick to point out, brewing stocks, for one group, are now in the liberal yield category. Returns at recent prices ran as high as 8% for Ruppert and Drewrys. For the ventures some the brewers' contention is that the 18-year and up class, which will start to expand markedly next year, reflecting the wartime high birth rate, will finally end the declining per capita consumption which has kept the brewing issues out of investment favor for a number of years.

Air conditioning companies, which overplayed their hand last summer by loading up retailers, are in a far different status this year. Marketwise, however, there has been little reflection of it. Even the merger of Borg Warner with York Corp. stirred up little in the way of fireworks, although it lifts Borg to an important position in the air conditioning industry.

Some Promising Issues

Dresser Industries has been able to outperform the oil issues generally, largely on projections of good sales and earnings with some estimates indicating gross will reach the \$200 million mark. The stock has been no stranger to the new highs lists even in inconclusive markets. The company started in the oil drilling bit business last year which, naturally in the formative stage, was a drag on earnings last year and probably will be this year before the corner is turned.

Despite the fanfare over the highway building program, the old-line machinery maker, Bucyrus-Erie, has been pursuing a rather mundane market course. The company, a 75-year veteran in its line, is bound to share importantly in the highway program which, so far, has generated interest mostly in the cement issues to the exclusion of the many others that will have to share in such a vast project.

Worthington Corp. also wouldn't be completely immune from any building program that huge and, moreover, is also in the air conditioning business. It also is

participating to some degree in the nuclear energy field with a contract for certain work in connection with a Michigan atomic power plant. A recent increase in the dividend has helped the stock maintain an air of buoyance a bit under its year's high but without inspiring any broad investment demand. The stock was held in a congestion area for some time, out of which it broke recently to free it from technical bondage and hint at possible higher prices eventually.

The Rails and the Strike

Railroads were even more cautious in the face of a possible steel strike than the steel shares themselves. This seemingly illogical situation stems from the fact that a strike would deplete the steel customers' inventories built up as a safeguard against a strike and force large new orders eventually. For the railroads, however, the effects would be an immediate drop in carloadings. Baltimore & Ohio, however, was one road that has been benefiting from internal developments, notably its debt reduction program. Earnings this year have also been whittled down rather drastically by maintenance expenditures. Both will help earnings as the large expenses dwindle. Even so, earnings so far this year have been running well above last year, and would even make a favorable comparison in the face of a steel strike.

Among the paper issues, which generally have been resting after having given a good account of themselves last year, Lily Tulip was somewhat more highly regarded than most since it has shown signs of breaking out of a trading range in recent sessions. This could be a prelude to an attempt to reach last year's high more than half a dozen points higher up the ladder. It is a large supplier to the vending machine companies which have been making drastic inroads into the retail business. The stock was split a year ago, which led to something of a consolidation once the fanfare died out.

[The views expressed in this article do not necessarily at any time coincide with those of the "Chronicle." They are presented as those of the author only.]

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes. Harold I. Thorp will retire from partnership in Laurence M. Marks & Co. on June 30.

Milton Watkins withdraws from partnership in Shields & Company June 30.

Frank A. Wood retires from partnership in W. C. Langley & Co. June 30.

Baron J. Gordon withdrew as Assistant Treasurer of Henry Montor Associates, Inc. as of June 12.

Unwarranted Attacks Upon Uranium

By MAURICE BARNETT, Jr.
Vice-President, General Investing Corp., New York City
Members American Stock Exchange

Taking exception to the irresponsible attacks and adverse publicity directed against the vitally important uranium industry, Mr. Barnett states it is "senseless to attack an entire industry for the malpractices of only a few." Sees sound mines unable to expand operations, and fears they will be absorbed by larger firms even though uranium offers tremendous opportunities.

Never before in the financial history of the United States has so much adverse publicity been directed against a single industry — as is being done today with respect to URANIUM. It would be senseless to deny the existence of abuses, but it is equally senseless to attack an entire industry for the malpractices of only a few. When one considers our dependence upon URANIUM for survivorship in time of war—as well as our need to produce URANIUM in time of peace if we are to remain a first rate power — then these attacks may be seen in their proper light as insidious, destructive and unpatriotic.

Vital Importance of Uranium

With more and more contracts being let for the construction of "reactor plants," both in this country and abroad, it should be apparent that the day is not far distant when atomic power should be supplying the needs of mankind. The very fact that these reactors require URANIUM as its fuel should make it readily understandable as to how vital and important it is that the production of URANIUM be encouraged and not discouraged.

In the name of sanity and fair play, as well as for the security of the United States, these attacks should be discouraged. The Securities and Exchange Commission should have both the power and personnel to correct financing abuses. If not, remedial legislation should be enacted by Congress to further strengthen the Securities Act. The interests and welfare of the American investor should be protected, but it should not be done to the detriment of the entire industry.

Hurts Sound Mines and Production

Irresponsible attacks in the form of unfavorable publicity has already served to slow down URANIUM production. Many commercial and honorably managed mines have been unable to expand operations because of their inability to arrange financing through a public distribution of stock. Other companies, already in ore have been unable to get into production for the very same reason. This has already resulted in a curtailment of mining operations, and if this condition is permitted to continue, it can only end by small companies finding themselves prey to the larger corporations.

Let us face the fact that URANIUM is vital to the safety and welfare of our country! Let us also realize that the URANIUM industry shows great promise and should not be dominated by a few large corporations. America has grown big and strong through the courage and sacrifices of the pioneers, and the American citizenry to their credit, have supplied the venture or risk capital which has made this progress possible.

Scores of large oil corporations have lately been entering the URANIUM field, and they are doing so because they recognize the profit potentials that URANIUM has to offer. Likewise, many of our largest mining corporations are also entering the URANIUM

field, and are doing so because they too recognize the profit possibilities ahead. It should be remembered that the URANIUM industry has but one customer, the United States Government, and this customer is committed to buy whatever URANIUM is produced over the next five years, and at a guaranteed price as well! URANIUM offers tremendous opportunities!

Let's give the small companies an opportunity to capitalize on URANIUM's tremendous future, rather than force them to sell out to the big corporations. That's the American way of doing things, and we are Americans.

Montreal Transport Debentures Offered

An underwriting group headed jointly by Shields & Co., Halsey, Stuart & Co. Inc., and Savard & Hart yesterday (June 27) offered a new issue of \$11,500,000 Montreal Transportation Commission 4% sinking fund debentures, 1956 issue, due July 1, 1976, at a price of 98.362% to yield 4.50%, principal and interest payable in U. S. dollars. The debentures are unconditionally guaranteed as to principal, interest and sinking fund by the City of Montreal, Que., Canada.

The Commission will apply the proceeds of the debenture sale toward repayment of a 1955 bank loan of \$1,250,000 incurred to purchase buses, and will use the balance to further a modernization program, mainly the purchasing of 250 new buses at a cost of about \$6,200,000.

The debentures are redeemable at 102% in the year beginning July 1, 1962, and at prices decreasing yearly to par for those redeemed after July 1, 1974. For sinking fund purposes, the debentures are callable at par plus accrued interest in all cases.

Montreal, in the Province of Quebec, has a population of approximately 1,347,000. Since its earliest days, it has been a focal point for the trans-shipment of both exports to other countries and of imports for distribution to various parts of Canada and the United States. The construction of the St. Lawrence seaway will improve the strategic position.

The Montreal Transportation Commission is presently furnishing urban transportation services in an 84.5 square mile area comprising the City of Montreal and 17 neighboring municipalities. It operates approximately 1,700 electric tramway cars and buses.

Total revenue for the Transportation Commission for the five months ended April 30, 1956 was \$14,915,000, and total net profit was \$894,000. Comparable figures for the five months ended April 30, 1955 were: revenue \$13,115,000 and a net loss of \$218,000.

Among the other underwriters are: Lehman Brothers; Eastman, Dillon & Co.; Hemphill, Noyes & Co.; Hornblower & Weeks; Ladenburg, Thalmann & Co.; Lee Higginson Corp.; Salomon, Bros. & Hutzler; and Tucker, Anthony & Co.

Trinidad Oil Deal Lessons

By PAUL EINZIG

Unpopular Trinidad Oil Co. sale and inability of British firms to raise the required capital for the development of its oil concessions in Trinidad in Canada viewed, by well-known British economist, as a valuable lesson concerning the dangers and disadvantages inherent in the high taxation and excessive undistributed profits tax. Dr. Einzig opines: (1) Socialists will be less likely to oppose tax concessions for firms operating overseas; (2) sale of capital assets is not the way to strengthen gold reserves; (3) agreement made with Texas Oil Co. to sell oil for un-blocked sterling is neither advantageous nor disadvantageous; and (4) labor unions may be encouraged by increased reserves to press for higher wages.

LONDON, Eng.—The House of Commons approved, by a substantial majority, the decision of the Chancellor of the Exchequer, Mr. Macmillan, not to oppose the sale of the Trinidad Oil Co. to the Texas Oil Co. The debate on June 20 was the culmination of a stormy controversy that was going on ever since the announcement of the Texas Oil offer on June 6. At

Dr. Paul Einzig

first the deal encountered violent opposition not only among Socialists but also among the Government's own supporters, most of whom would have voted against authorizing it if the Government had announced its intention immediately after the terms became known.

But for nearly a week the Government itself was far from certain about the line it should take. As Mr. Macmillan himself admitted, his first impression was decidedly unfavorable, and it was only after a careful study of the circumstances that he reluctantly agreed to let the interests concerned proceed, subject to certain safeguards.

Oil Sales Unpopularity

One of the main reasons why the deal is unpopular is that it means handing over to non-British interests one of the none too numerous oil producing areas within the Commonwealth. It is true, compared with the capacity of the British Borneo oilfields, and of the Canadian oilfields, the actual and potential oil output of Trinidad is relatively small. Even so, for sentimental rather than economic reasons, most people in Britain are reluctant to give up what is, after all, one of the chief economic assets of the proposed Caribbean Federation.

There are many other arguments against the deal. But since neither the British Petroleum Co. nor the Shell concern was interested in acquiring the Trinidad Oil Co., and since the prospects of raising the capital required for the development of its oil concessions in Trinidad and in Canada were anything but favorable, Mr. Macmillan had no choice but allow the sale to take place. It is true, the Opposition would have preferred it if the British Government itself decided to take over the company, or to finance its capital projects. But that solution did not appeal to a Conservative Government, and it is doubtful whether the Labor Party, had it been in office, would have adopted it.

The acquisition of some \$180 million as a result of the deal is of course not without attractions, having regards to the low level at which the gold reserve stands in spite of its increase during the last six months. But this strengthening of the gold reserve at the cost of selling out a capital asset is not exactly an ideal way of

solving the problem. It is very tempting for this Government, and for any future Government, to take the line of least resistance by reinforcing its gold reserve with the aid of such X sales instead of strengthening the economy for the sake of improving the balance of payments. And the increase in the gold reserve resulting from the Trinidad Oil transaction is likely to encourage the Trade Unions to press forward with their excessive wages demands. Once they are satisfied that the danger of unemployment through cuts in raw material imports, that might be necessitated by a decline in the gold reserve, has receded, it will be much more difficult to persuade them to moderate their appetite.

A Lesson of High Taxes

A lesson that has emerged from the Trinidad Oil episode is that, so long as taxation of corporation earnings and of large personal incomes remains substantially higher in Britain than elsewhere, American and other interests will be in a position to buy up such properties on advantageous terms. One of the reasons why it appears worth while for the Texas Oil Co. to pay for Trinidad Oil shares twice the price at which they were quoted on the London Stock Exchange before the offer was made was that, to an American holder who is not subject to British taxation, the shares of the company, once its headquarters are removed from Britain, must be worth a great deal more than to a British holder.

Even if the Trinidad Oil deal had no other advantages, it has certainly made British opinion realize the dangers and disadvantages inherent in the high taxation of British firms operating abroad. Apart from the taxation point referred to above, the excessive taxation of undistributed profits deprives these firms of capital resources which they could use for developing their assets. Under the influence of this realization Mr. Macmillan agreed, on the day before the debate on the Trinidad Oil deal, to make a small tax concession in favor of British firms operating in the Commonwealth. He was not prepared to promise definitely the much larger concession demanded by many of his supporters, but he was willing to promise to examine the matter. From this point of view the attitude of the Socialists towards the Trinidad Oil deal might in the long run prove helpful, because they are now less likely to make political capital out of tax concessions for firms operating overseas.

None of the critics of the terms on which Mr. Macmillan agreed to allow the deal to proceed have noticed that one of the "safeguards" on which the government insists is utterly worthless for practical purposes. The Chancellor announced that the Texas Oil Co. would have to agree to sell Trinidad Oil to Britain against payment in sterling, in conformity with the agreed terms of the sale of oil from the Dollar Area in general. Since the sterling paid for the oil will not be blocked, it is bound to be used for purposes for which sterling would have

been bought against dollars. So the net result from the point of view of the dollar and gold holding of the Treasury is bound to be precisely the same as if the oil had been paid for in dollars. The only difference is that, instead of spending dollars, and receiving a corresponding amount of dollars, the Treasury would neither spend nor receive dollars. On balance the arrangement would make no difference to the size of its gold and dollar reserve.

There is one aspect of the government's attitude which is particularly gratifying. Had Mr. Macmillan vetoed the transaction it would have discouraged American investment in the Commonwealth. It would have also stimulated American opposition to British investment in the United States. The government's decision must be, therefore, welcomed from the point of view of Anglo-American financial relations.

Peter Burnett With Second Bank-State Tr.

BOSTON, Mass.—Peter Burnett has become associated with the Second Bank-State Street Trust Company in the Trust Department. Mr. Burnett was formerly trader for Minot, Kendall & Co., Inc.

Merrill Lynch Adds

(Special to THE FINANCIAL CHRONICLE)

CANTON, Ohio — William J. Claflin, Jr. has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, St. Francis Hotel Building.

Saunders, Stiver Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio — Ronald Dimengo is now with Saunders, Stiver & Co., Terminal Tower Building, members of the Midwest Stock Exchange.



NSTA

Notes

REGISTRATIONS TO JUNE 8th, FOR 23rd ANNUAL
CONVENTION OF NSTA, EL MIRADOR HOTEL,
PALM SPRINGS, CALIF., OCTOBER 24th TO 27th, 1956.

*Charles E. Exley	Charles A. Parcels & Co.	Detroit, Mich.
*Beck, Edwin L.	Commercial & Financial Chronicle	New York, N. Y.
Maurice Hart	New York Hanseatic Corp.	New York, N. Y.
*Thompson M. Wakeley	A. C. Allyn & Co.	Chicago, Ill.
*Houston Hill, Jr.	J. S. Strauss & Co.	San Francisco, Calif.
*Byron J. Sayre	John Nuveen & Co.	Chicago, Ill.
Jerome F. Tegeler	Dempsey-Tegeler & Co.	St. Louis, Mo.
*Milton J. Isaacs	Straus, Blosser & McDowell	Chicago, Ill.
*Graham Walker	Joseph McManus & Co.	New York, N. Y.
*James Jones	Joseph McManus & Co.	New York, N. Y.
*George Dedrick	Joseph McManus & Co.	New York, N. Y.
*Ernest R. Mulcock	E. R. Mulcock & Co.	Syracuse, N. Y.
*George J. Elder	Straus, Blosser & McDowell	Detroit, Mich.
*John F. Reilly	J. F. Reilly & Co., Inc.	New York, N. Y.
*Walter G. Mason	Scott, Horner & Mason, Inc.	Lynchburg, Va.
Miss Anne E. Mason	Scott, Horner & Mason, Inc.	Lynchburg, Va.
*Harry J. Wilson	Harry J. Wilson & Co.	Chicago, Ill.
*William V. Frankel	Wm. V. Frankel & Co.	New York, N. Y.
*A. P. Kibbe	A. P. Kibbe & Co.	Salt Lake City, Utah
*L. R. Ure, Jr.	A. P. Kibbe & Co.	Salt Lake City, Utah
*A. Gordon Crockett	Crockett & Co.	Houston, Texas
*Eugene Stark	Bruns, Nordeman & Co.	New York, N. Y.
*Paul I. Moreland	Moreland & Co.	Detroit, Mich.
*Paul B. Hanrahan	Hanrahan & Co.	Worcester, Mass.
*Jules Bean	Singer, Bean & Mackie, Inc.	New York, N. Y.
*John J. Meyers, Jr.	Gordon, Graves & Co., Inc.	New York, N. Y.
*Paul Yarrow	Hooker & Fay	San Mateo, Calif.
*John J. Keenan	Morgan & Co.	Los Angeles, Calif.
*James N. Russell	Gottroff, Russell & Co.	Cleveland, Ohio
*Joseph E. Smith	Newburger & Co.	Philadelphia, Pa.
Russell M. Ergood, Jr.	Stroud & Co., Inc.	Philadelphia, Pa.
Ronald A. Morton	Blue List Publishing Co.	New York, N. Y.
*Jolley, Lex	The Robinson-Humphrey Co.	Atlanta, Ga.
*Martin, Justus C.	The Robinson-Humphrey Co.	Atlanta, Ga.
*Ronan, Frank J.	New York Hanseatic Corp.	New York, N. Y.
*Mr. & Mrs.		

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Ivan Gel-fand is now with Merrill Lynch, Pierce, Fenner & Beane, 216 Superior Avenue, Northeast.

Samuel & Engler Add

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, Ohio—Thomas H. Edmondson is now with Samuel & Engler Company, 16 East Broad Street.

This is under no circumstances to be construed as an offering of these securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such securities.
The offer is made only by means of the Prospectus.

335,714 Shares

Union Tank Car Company

Capital Stock
(Without Par Value)

These shares are being offered by the Company to the holders of its Capital Stock subject to the terms and conditions set forth in the Prospectus. Subscription Warrants expire at 3:30 P.M., Eastern Daylight Saving Time, July 9, 1956.

Subscription Price \$29 per Share

Copies of the Prospectus may be obtained from the undersigned only in those States in which the undersigned may legally offer these securities in compliance with the securities laws of the respective States.

Smith, Barney & Co.

Blunt Ellis & Simmons

The First Boston Corporation

Blyth & Co., Inc.

Glore, Forgan & Co.

Goldman, Sachs & Co.

Harriman Ripley & Co.
Incorporated

Kidder, Peabody & Co.

Lehman Brothers

Merrill Lynch, Pierce, Fenner & Beane

Stone & Webster Securities Corporation

White, Weld & Co.

June 25, 1956

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

It is announced that at a regular meeting of the Board of Directors held June 26, **The First National City Bank of New York** appointed Thomas F. Creamer, Ralph W. Dey and Walter W. Jeffers Vice-Presidents. All three had been Assistant Vice-Presidents. Mr. Creamer and Mr. Jeffers are in the bank's Domestic Division. Mr. Dey is a member of the group supervising offices in Brooklyn.

John C. Barbour, Jr. and William F. Reynolds have been appointed Assistant Cashiers by **The First National City Bank of New York**. Both are in the mortgage and real estate loan department of the national services group. Charles C. Jordan, Jr., has been appointed an Assistant Manager at the bank's Exchange Place office.

The executive committee of **City Bank Farmers Trust Company** has appointed Raymond H. Sampson a Trust Officer. He was formerly an Assistant Trust Officer in estates and personal trust administration.

Roger Hornby, Assistant Personnel Director, and Frank Radano, Assistant Treasurer, have been appointed Assistant Vice-Presidents of **Chemical Corn Exchange Bank, of New York**, it was announced on June 25 by Harold H. Helm, Chairman.

Myrtle M. Hunt, the only woman in the 122-year history of **The Bowery Savings Bank of New York**, to reach the rank of Assistant Vice-President, retired on June 22 after 29 years' service with the bank. Miss Hunt was Secretary to Henry Bruere, retired President and Chairman of the Board of The Bowery, for over 25 years. She has served as director of the **National Association of Bank Women**, was one of the founders in 1930 of the **Savings Bank Women of the Metropolitan Area**, and President from 1933 to 1935. She is the author of many banking magazine articles on public relations and the role of women in banks.

J. Wilbur Lewis, President of **Union Dime Savings Bank, New York**, announced on June 21 the

election of John P. Scholl as Assistant Secretary of the bank. Mr. Scholl joined the staff as a Clerk in 1928 and has served as Teller, unit head and later as Floor Auditor and Supervisor.

The election of Harry W. Bridgetts as a Trustee of the **Empire City Savings Bank of New York**, was announced on June 26 by Charles Diehl, President. Mr. Bridgetts is Vice-President and a director of the real estate firm of Brown, Harris, Stevens, Inc.

The Meadow Brook National Bank at Meadow Brook, Nassau County, N. Y., announced on June 25 a proposed semi-annual dividend, payable in stock, of 2½%. A special meeting of stockholders of the bank has been called for July 12, at the West Hempstead office of the bank, to approve the dividend, which must also be confirmed by the Comptroller of the Currency. The dividend will be payable on July 17. At the July meeting the stockholders will also be asked to approve the sale of an additional 104,500 shares of stock beginning July 24 with rights being issued to stockholders of record on the meeting date allowing them to buy one share of Meadow Brook stock for each 13 held at that time. This would bring the total stock outstanding to 1,496,950 shares. Augustus B. Weller is President of the bank. The Meadow Brook National Bank has offices in 25 communities in Nassau County.

As of June 7 the **Home National Bank of Ellenville, N. Y.**, made an addition of \$120,000 to its capital, the total of which was reported as of June 7 at \$280,000, compared with \$160,000 previously. The additional capital was brought about by a stock dividend of \$40,000, and the sale of \$80,000 of new stock.

Appointments of two new Assistant Vice-Presidents of the **Rockland-Atlas National Bank of Boston, Mass.**, has been announced by H. Frederick Hagemann, Jr., President. They are: Nathaniel F. Esten of Westwood, who will continue his activities with the general banking division; and Avery Sawyer of Brookline, active in

the business development department of the bank.

Kingsbury S. Nickerson, President of **The First National Bank of Jersey City, N. J.**, announced on June 21 that the board of directors of the bank had authorized an increase in the rate paid on savings deposits to 2½%, effective July 1. Interest will be compounded semi-annually and will be paid on all balances over \$10. Deposits received before July 16, will draw interest from July 1. Mr. Nickerson stated that the new 2½% rate is the highest rate of interest that can be paid legally by commercial banks. "We hope," he added, "that this increased rate will encourage more people to form the habit of regular savings."

Action approving the proposed merger of **The First National Bank of Cedar Grove, N. J.**, with the **National Newark & Essex Banking Co. of Newark, N. J.**, was taken on June 14, following ratification of the plans by both banks, details of which were given in our May 31 issue, page 2617. In approving the merger the stockholders of the National Newark & Essex Banking Co. also approved a proposal to increase its capital which on the effective date of the merger is reported as \$7,125,000, on 285,000 shares of common stock, par \$25 each, surplus of \$7,125,000 and undivided profits of not less than \$3,300,000.

Franklin B. Bitting, Vice-President of **County Bank and Trust Company of Paterson, N. J.**, died of a heart ailment on June 24, at Harkness Pavilion of New York Medical Center. Mr. Bitting was born in Media, Pa., in 1900. He joined County Bank as Manager of the real estate department in August, 1940, was promoted to Assistant Vice-President in 1942 and elected a Vice-President in January, 1950, as Officer-in-Charge of County Bank's mortgage department. Mr. Bitting started his banking career in 1928 with the **Chase National Bank of New York**. Later he was affiliated with the **Passaic National Bank & Trust Co.** as Manager of its real estate and mortgage loan department. In 1939 he resigned to accept a post with the Federal Deposit Insurance Corporation in Jersey City. Mr. Bitting was active in the Real Estate Board of New Jersey, the Mortgage Bankers Association of New Jersey and the Home Builders Association of New Jersey, etc.

The **First National Bank of Pennington, N. J.** with common stock of \$250,000 was merged with and into the **Trenton Banking Company of Trenton, N. J.** under the charter and title of the latter effective June 1. The Pennington bank has become the Pennington office of the Trenton Trust Co.

Vincent E. Furey has been appointed Senior Vice-President of **Girard Trust Corn Exchange Bank of Philadelphia**, it was announced on June 26 by Geoffrey S. Smith, President. Mr. Furey is a commercial lending officer with more than 30 years experience. He has been a Vice-President since 1947. He is Chairman of the Officers' Loan Committee at Girard Corn Exchange and responsible for the administration of lending policy. Nine other officer promotions and election of 12 new officers at Girard Corn Exchange were also announced. Stephen S. Gardner, a lending officer, and Harold W. Kalb and William L. Shinnars, both Operations Officers, were all promoted to Assistant Vice-President. In the trust department, Paul B. Branin was advanced to Senior Trust Officer, and Allen M. Terrell to Senior Investment Officer. Harman A. Yerkes was promoted to Trust Officer while William B. Eagleson, Jr., Russell A. Hunter, and Morris B. Ste-

venson were moved up to Investment Officer.

New officers in the banking department are William A. Collins, Howard L. Graham and George E. Spencer, Assistant Treasurers. In the operating department, Harrison Cottingham, Jr., Robert Crothers, and Fred W. Hartman were appointed Assistant Treasurers. In the trust department, George E. Spaeth was made Assistant Trust Officer, while William S. Davis, J. Warren Maxson, John G. Newman, Jr., James E. Thompson, Jr., and William T. Windie, Jr., were appointed Assistant Investment Officers. All the appointments are effective immediately.

Seventeen officers and employees of the **Mellon National Bank & Trust Company of Pittsburgh, Pa.**, have joined the bank's Quarter Century Club after putting in 25 years of service, it was made known by the bank on June 20 according to the "Pittsburgh Post Dispatch," which added that Frank R. Denton, Vice-Chairman, presented each new member with a gold emblem on June 19 at a William Penn Hotel ceremony.

The **Central National Bank of Richmond, Va.**, has enlarged its capital to \$2,250,000, the amount having been increased effective June 5 from \$2,000,000 as a result of a stock dividend of \$250,000.

The sale of new stock to the amount of \$100,000, has increased the capital of the **Anacostia National Bank of Washington, D. C.** from \$500,000 to \$600,000. The effective date of the increase was June 15, according to the weekly advices of the Comptroller of the Currency's reports.

The merger of the **Caledonia Banking Company, of Caledonia, Ohio** with common stock of \$40,000 into the **National City Bank of Marion, at Marion, Ohio** with common stock of \$700,000 became effective June 2 under the charter and title of the **National City Bank of Marion**. The latter at the effective date of the merger, had capital stock of \$748,000 in 37,400 shares of common stock, par \$20 each, surplus of \$800,000 and undivided profits, including capital reserves, it is stated, of not less than \$459,075. As a result of the merger the Caledonia Banking Company has become a branch of the National City Bank of Marion.

An increase of \$162,500 in the capital of the **Lake County National Bank of Painesville, Ohio**, is reported by the Office of the Comptroller of the Currency, as a result of which the capital as of June 6 became \$650,000 instead of \$487,500 previously.

A stock dividend of \$500,000 has served to double the capital of the **Security National Bank of Sheboygan, Wis.**, making it now (as of June 8) \$1,000,000, compared with \$500,000 previously.

Announcement is made of the election of the following members to the Advisory Board of Directors of the **Fourth National Bank in Wichita, Kansas**: Dr. Harry F. Corbin, Jr., President of the University of Wichita; Dwane L. Wallace, President of Cessna Aircraft Company and O. A. Sutton, President of the O. A. Sutton Corporation.

Announcement of a proposed merger of four Michigan banks has been made by officers of the respective institutions namely, Joseph M. Dodge, Chairman of the Board of **The Detroit Bank, Detroit**; Selden B. Daume, President of **The Detroit Wabek Bank & Trust Co. Detroit**; and Herbert H. Gardner, President of the **Birmingham National Bank of Birmingham, Mich** and the **Ferndale National Bank of Ferndale, Mich.**

All jointly announced that their boards of directors will recommend to the shareholders a merger of the four banks. The consolidated bank will be known as **The Detroit Bank and Trust Company**, and it will provide 52 banking offices covering Detroit, Birmingham, Ferndale, and Southfield. The total capital funds of the consolidated institution will, it is announced, be in excess of \$60,000,000 and total resources it is added will exceed one billion dollars. The basis on which shares of the consolidated bank stock will be exchanged is announced as follows: one share for each share of the Detroit Wabek Bank & Trust Co., one share for each share of the Birmingham National Bank, nine-tenths of a share for each share of the Ferndale National Bank, and one share for each share of The Detroit Bank.

The principal officers will be Joseph M. Dodge, Chairman of the Board; Selden B. Daume, Vice-Chairman of the Board; Raymond T. Perrin, President and Director; Charles H. Hewitt, Executive Vice-President and Director; Milton J. Drake, Senior Vice-President; Herbert H. Gardner, Senior Vice-President and Director; Clarence J. Huddleston, and William J. Thomas, Senior Vice-Presidents.

The Detroit Bank, established in 1849, operates 42 offices and is the oldest bank in Michigan. Although offering commercial and savings banking, until this time it has not had a trust department; the Detroit Wabek Bank & Trust Co. is the result of the merger of the Detroit Trust Company and the Wabek State Bank which occurred on Aug. 1, 1955; the Detroit Trust Company, was established in 1900. Prior to merging with the Wabek State Bank, it had been exclusively engaged in the trust business; the Wabek State Bank was established in Birmingham, Mich. in 1933, expanded to Ferndale in 1934, and in 1938 transferred its main office to the Fisher Building, Detroit. The Birmingham National Bank was organized in 1933. The Ferndale National Bank was established in 1945.

As of June 11 the **Second National Bank of Lexington, Ky.** changed its title to the **Second National Bank & Trust Co. of Lexington**. Early in the year the bank increased its capital from \$150,000 to \$300,000, reference to which was made in these columns April 12, page 1824.

As of May 25, the **Security National Bank of Greensboro, N. C.**, reported a capital of \$2,250,000, increased from \$1,500,000 by the sale of \$750,000 of new stock.

The **Planters National Bank & Trust Company of Rocky Mount, N. C.**, with common stock of \$350,000 has taken over the **Roanoke Bank & Trust Company of Roanoke Rapids, N. C.**, with common stock of \$50,000, the consolidation having been effected as of June 9 under the charter and title of the **Planters National Bank & Trust Co.** At the effective date of the consolidation the capital of the consolidated bank was reported at \$600,000 in 24,000 shares of common stock, par \$25 each; surplus of \$700,000 and undivided profits, it is reported, including capital reserves, of not less than \$403,725.

The sale of new stock to the amount of \$302,500 by the **First National Bank of Jackson, Miss.**, has resulted in increasing the capital of the bank from \$1,512,500 to \$1,815,000. The enlarged capital became effective June 6.

The **Clovis National Bank of Clovis, New Mexico** has increased its capital from \$150,000 to \$200,000, as of May 31. The addition to the capital came about by a stock

This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these securities. The following is made by prospectus only to bona fide residents of Texas.

96,000 SHARES

Wolff & Marx, Inc.

COMMON STOCK
(Par Value \$5 per share)

Price \$11.25 per share

\$950,000

6% Sinking Fund Debentures due 1976

(with Common stock purchase warrants attached)

Dated: July 1, 1956

Due: July 1, 1976

PRICE 100%

MUIR INVESTMENT CORP.

TEXAS NATIONAL CORPORATION
RAUSCHER, PIERCE & CO.
AUSTIN, HART & PARVIN
DITTMAR & COMPANY
EPPLER, GUERIN & TURNER
CHAS. S. WHITE & CO.

J. MARVIN MORELAND & CO.
M. E. ALLISON & CO., INC.
SHEARSON HAMMILL & CO.
LENTZ, NEWTON & CO.
SOUTHWESTERN SECURITIES COMPANY
R. L. STEWART & CO.

JUNE 27, 1956

dividend of \$25,000 and the sale of \$25,000 of new stock.

C. D. Baillie, Neil R. Campbell, Ben Chaffey, Paul E. Uhl, J. R. Van der Zee, all the foregoing previously Assistant Vice-Presidents), Robert E. Williams, and Victor H. Winfrey were elected Vice-Presidents of California Bank of Los Angeles at a meeting of the directors on June 11, Frank L. King, President, announced. C. F. Schwan was elected Cashier of the bank and E. E. Bontems, Eugene D. Cole, Wallace E. Frazier, W. T. Harrison, V. K. Kelsey, James B. Mears, F. W. Peterson, L. B. Raether, L. A. Soper, Jr., and Tony Westra were elected Assistant Vice-Presidents.

Following the practice of holding a directors meeting annually in one of its out of state offices, the Board of Directors of The Bank of California of San Francisco met June 12, at Tacoma, Wash. At this meeting, four members of the staff of the Tacoma office were appointed Assistant Cashiers. They are: E. H. Van Fossen, T. J. Muzzy, Louis Parker, Bruce A. Hodgert, Mr. Van Fossen is a veteran of 40 years service and is assigned to the public relations section of the Tacoma office. He is past President of the Tacoma chapter of the American Institute of Banking. Mr. Muzzy is a past President and former instructor of the local A.I.B. chapter and has over 30 years service. In his new position, Mr. Parker, who has been with the bank since 1947, will be in charge of the bank's consumer loan department. He was recently elected President of the Tacoma A.I.B. chapter. Mr. Hodgert joined the staff of The Bank of California in 1948 and will officiate as Commercial Loan Officer.

With the opening of its new Los Angeles, Calif., Main Office on June 11, First Western Bank and Trust Company of San Francisco, Calif., is placing its statewide organization on a North-South divisional basis, it was announced June 7 by T. P. Coats, Chairman of the bank's Board of Directors. The new Los Angeles Main Office, in addition to providing complete banking facilities, will also serve as the bank's Southern California divisional headquarters. J. Arthur Taylor, Vice-Chairman of the bank's board of directors, is Senior Executive in Southern California and Southern Divisional Head. His counterpart in Northern California is H. O. Johnson, Executive Vice-President. Each will have complete divisional staffs. First Western on June 11, reported 26 offices in Southern California and 53 offices in the Northern division. The bank's new Southern California headquarters is located at 556 S. Spring Street.

E. Herrick Low has joined the management of First Western Bank and Trust Company of San Francisco, it was announced on June 20 by T. P. Coats, Chairman of the bank's Board of Directors. Mr. Low who has been elected a director and named Vice-Chairman of the bank's Board, has been a banker practically all his adult life, and comes to California and to First Western from the Chemical Corn Exchange Bank, New York, where he was Executive Vice-President. He will make his headquarters at First Western's administrative office in San Francisco and will serve on a number of committees in addition to his general executive duties and membership on the board of directors. Mr. Low was elected a member of the Association of Reserve City Bankers in 1932, and is a director of numerous corporations, including Continental Insurance Co., Home Life Insurance Co., Nichols Engineering & Re-

search Corp., American Investment Co. of Illinois, and Pacific Ventures, Inc., Reno.

The new drive-in facility of the Highland and Santa Monica Office of the California Bank of Los Angeles, at 6861 Santa Monica Blvd., will open on Monday, July 9, Frank L. King, President, has announced. The drive-in is the first to be constructed in the Hollywood area and is located one block west of the Highland and Santa Monica intersection.

Incident to plans to increase its capital by \$300,000 shares, the Bank of Nova Scotia at Toronto, Ont., is offering the new issue to shareholders of record May 31 in the ratio of one share for each five shares held, according to Canadian press advices in the Montreal "Gazette" of June 1. The "Gazette" which indicates the announcement of the new stock as having been made by H. L. Enman, Chairman and President of the bank, reports further as follows:

"Par value of shares is \$10 and the action will increase paid-up capital from \$15,000,000 to \$18,000,000.

"The balance of the proceeds, \$8,400,000, will go to rest account. Earlier this month directors increased rest account by \$7,000,000 through transfer of \$6,000,000 from tax-paid reserves and \$1,000,000 from undivided profits. On completion of the present issue rest account will total \$50,400,000.

"The new issue, the bank stated, will bring shareholders' equity more closely in line with assets which at April 30 totalled \$1,253,612,810, including deposits of \$1,170,358,469. The last previous issue of stock was 300,000 shares in 1951, when total assets were \$840,139,000. That issue was offered to shareholders at \$30 a share in the ratio of one share for each four held."

According to advices May 28 from Charles Barker & Sons Ltd. of London, it is announced in Salisbury, England, that a Merchant Bank is to be established there to carry on business in the Federation of Rhodesia and Nyasaland. The new institution, which will be known as The Merchant Bank of Central Africa, is sponsored, it is stated, by N. M. Rothschild & Sons and Philip Hill, Higginson & Co. Ltd., both of London, in conjunction with Rhodesian Selection Trust Ltd., Dillon, Read & Co., New York, de Rothschild Freres, Paris, Banque Lambert, Brussels, Messina (Transvaal) Development Company Ltd., Messina, and Leben Investment (Rhodesia) (Private) Ltd., Bulawayo. R. L. Prain, O.B.E., will be Chairman and it is expected that the bank will open for business early in 1957.

Wodan Handelmaatschappij N.V. of Rotterdam, announces that as from June 1, the name of the company has been changed to Wodan Handelsbank N.V.

Peter Filosa Opens

(Special to THE FINANCIAL CHRONICLE)

GRAND JUNCTION, Colo.—Peter L. Filosa is engaging in a securities business from offices at 215 North Fifth Street. Mr. Filosa was formerly with Filosa Securities Company and Ralph M. Davis & Co.

North American Planning

North American Planning Corporation has been formed with offices at 579 Fifth Avenue, New York City to engage in a securities business. Officers are Barnard C. Luce, Jr., president and Treasurer; Charles T. Ross, Vice-President; and Austin D. Graham, Secretary.

Securities Salesman's Corner

By JOHN DUTTON

The Fundamentals of Security Salesmanship

(ARTICLE I)

During the coming weeks this column will devote itself to the discussion of training and study for beginners who are attempting to master the intricacies of retail securities salesmanship. Most salesmen need help during their first year in the business. The best way to learn is by doing.

If you have the desire to become a professional investment man you will first of all wish to understand investment procedure. You must acquire knowledge. Before you can advise others you must know what you are doing. This knowledge cannot be obtained in a day. You cannot read a few books and know securities. But you must start somewhere even if as crudely as in my own experience, when as a young man back in 1925, I was told to take Moody's Railroad Manual home with me and study it. Today, we have better methods of learning than that. Some firms have training courses that are basic and sound and they will set you up with some fundamental knowledge. Others have only a desk and a telephone to offer. But regardless of the opportunity for learning that you may or may not have, you will have to be your own teacher if you are going to learn to analyze securities and the problems of your clients.

Learning Never Stops

There is no short cut to knowledge when it applies to investment procedure. The men who have reached the very top in this business still spend hours in reading and study every week of their lives. The more you learn the more you will appreciate that you have more to learn. The panorama is constantly changing. Unless You Have the Desire to Enter a Pro-

fession that Never Ceases to Demand Your Attention and Your Undivided Concentration, don't try to become a top flight advisor and investment salesman. I am making this statement because I believe that anyone who takes his work seriously and professionally can only advise people on their investments When He Feels Confident He Is Qualified to Do So.

Must Believe Before You Can Sell

If you are only interested in acquiring some short cuts that will enable you to make substantial commissions as a salesman, then my advice to you is Find Another Business. If you wish to stay in the securities business you must be prepared for "ups and downs." There are periods when you cannot make the easy sales—there are times when people will not buy securities because they think that they are "going up" as they will often do when the public is in a speculating and confident mood. If you sell the wrong securities, if the speculative stocks and cyclical situations you have sold (because you didn't know any better, or because it was the easy way to make money when the goose was high) turn sour on you, then you'll discover that what you thought was gold has turned out to be tarnished brass. And these things will happen unless you have built a clientele that consists of Investors Who Have Confidence in You, and Who Consult With You on an Investment Basis, and Not a Collection of Heterogeneous Speculators Who Only Bought Some Stock From You Because You Had a Likely Story, or an Appealing Personality and Sales Talk.

If you wish to become an investment consultant who can sit

down with a businessman, a doctor, a lawyer, a retired widow, a bank President, a scientist, or an individual who has bought and owned many securities, and one who has never invested in a stock or a bond as well; if you can meet the man in the \$10,000 a year income bracket and the one in the \$100,000 a year category, and with an assured feeling of complete confidence in your ability to advise and help such people as these to better their investment position, then you have achieved the first step toward success in becoming a professional investment security salesman.

If you have confidence in yourself it will be because you know what you are doing. You won't learn what you must know overnight. But you will gain confidence as you work and learn. You can start out with the smaller accounts. You can study at least two hours a day during the first year you are learning to sell securities. In this connection I think it is helpful to select several good Mutual Funds, one for income and another for growth, and use them as a starting vehicle. Don't spread out too much. Don't try to learn about 100 funds. Specialize in a few of them. Find out what people need and use the funds as a medium for them to obtain diversification, growth, or income, where indicated. Get your feet wet slowly. Don't try to be an investment advisor before you are ready and prepared for this important work.

Make notes of your interviews. Check up on your work. When you discover that you don't know an answer to a question or a problem, find the solution, ask your sales manager, don't pass over anything. Be thorough! Look upon your first year in this business as a year for intense application and learning—earn what you can but Learn While You Earn.

NEXT WEEK:

"WHAT TO READ AND STUDY"

This announcement is neither an offer nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

\$7,500,000
(Canadian)

Home Oil Company Limited

5% Convertible Subordinated Debentures

Due July 1, 1971

Convertible into Class A Shares at \$15 (Canadian) per Share

\$3,750,000 principal amount of the Debentures are being underwritten by Canadian Underwriters and \$3,750,000 principal amount are being underwritten by United States Underwriters. The Debentures are being offered to the public in each of said countries only by dealers authorized so to do by the laws of the respective countries.

Price 101.688% (U.S.)

Copies of the Prospectus may be obtained in any State only from such of the several Underwriters, including the undersigned, as may lawfully offer the securities in such State.

LEHMAN BROTHERS

WOOD, GUNDY & COMPANY LIMITED

June 27, 1956.

From Washington Ahead of the News

By CARLISLE BARGERON

Political propaganda being what it is, Secretary of Defense Wilson finds himself frequently in hot water because of what are described as inept statements. Only a few days ago he described the efforts in the Senate to boost Air Force appropriations by a billion dollars as a "phony." Immediately Democratic Senators became purple with rage at the insult and some Republican Senators were only slightly less restrained. That great statesman, Senator Stu Symington, often mentioned as the Democratic Presidential candidate, declared with much solemnity that Wilson's usefulness as a public official was ended. Throughout the country editors commented, some caustically, others with amusement, that Wilson was the Administration's outstanding malaprop.

I always find these explosive statements of the Secretary as quite refreshing. I think he renders a distinct public service with them and it is more than passing strange that the truth or merit of his cracks receives little attention. Instead, the discussion always turns on his facility for saying the wrong thing.

In this most recent instance the White House staff is said to be considerably irked. They have indicated to the ailing Eisenhower that something had to be done about Wilson.

Now just consider this for a moment. Why is the White House staff upset. Well, it seems the Administration, realizing it couldn't ward off an Air Force increase, hoped to keep it down to half of the billion dollars. They feared, correctly, that Wilson's statement would make the Senators so indignant that they would ignore the Administration's objective. This is, indeed, what the Senate Republican leaders thought. An effort to pacify the Democrats was the cause of some of the Republicans joining in the criticism of Wilson.

In the first place, the Secretary was eminently correct in describing the Air Force boost as a phony. There is no doubt that the Air Force generals will gladly take every billion they can get and then not think they have enough. This is true of the Generals and Admirals as a whole. None of them ever has enough men and material in battle; none of them ever has enough in peace time. This is not in criticism of them. They have single track minds. They are not trained to think in terms of what the economy can stand.

The President is a military man and knows the ways of the military. He and the Chiefs of Staff get together on the appropriations which the Administration asked for. But then, as happens every year, leaders of the individual services, slip out the back door, so to speak, and take their case to Congress. With their tremendous lobby behind them, including the aircraft industry which depends upon government spending for about 95% of its business, the Air Force nine times out of 10 proves irresistible.

Now consider another phase of the tempest stirred up by Wilson and the pain he has given to the White House staff. It is a sad commentary on the Senators, indeed. They are pictured as having been in the mood to compromise with the Administration and only add half a billion to the Air Force appropriation. But Wilson's remark made them so indignant that they voted practically the full increase of a billion.

Such conduct in itself would seem to completely prove Wilson's statement that it is all a phony. Half a billion dollars is entirely too much for the taxpayers to have to fork up for the ruffled feelings of Senators.

I recall a previous so-called malaprop on Wilson's part, his reference to hound dogs at Detroit during the Congressional campaign of '54. The welkins rang with the professed wrath of the Democrats and the anguished screams of the Republicans. Yet the

man was uttering some very plain common sense—that is, in effect, if there is unemployment in the Detroit automobile industry the workers should seek jobs elsewhere.

The Republican Governor of Illinois was so shocked that he at first refused to sit on the platform for Wilson's scheduled speech in Chicago. It took all sorts of pressure from high places to get the Governor to change his mind.

Wilson is a very capable man and he is making a splendid Secretary of Defense. His occasional sound-offs, instead of causing a throwing up of hands in despair, should be studied as to their truth.

LETTER TO THE EDITOR:

Anxiety-Free Market Appraisal Possibility Doubted

Donald C. Marsden, Investment Counsel, maintains system outlined by Dr. C. F. Roos in recent "Chronicle" article falls short as a practical tool for the investor. Stresses importance of a variety of intangible as well as tangible factors in analyzing the market.

Editor, Commercial and Financial Chronicle:

Dr. Charles F. Roos' article, "What Makes Stock Prices?" in your issue of May 10th seemingly heralded a new era of anxiety-free stock market appraisal for the "informed" few. However, closer examination of his "mathematical" system of calculating "correct" stock price levels over the period 1920-1955, revealed some pretty profound shortcomings.

Detailed results are shown in the accompanying tables. The following comments, however, make clear the basis for criticism:

(1) In the nine out of the twelve years in which the calculated prices reflected the market as (a) overvalued (actual prices more than 10% above the calculated price level) or (b) as undervalued (actual price more than 10% below the calculated price level), the calculated price correctly indicated the direction of the subsequent change in price level although not necessarily the degree of change. The results began to appear well worth Dr. Roos' claims. However, a note of uncertainty began to arise when we saw that the calculated price reflected actual price levels in

1936 as considerably overvalued, but then in 1937 actual prices increased two percent. Interestingly enough, the tables showed 1937 actual prices as being a proper evaluation of the market and in 1938 actual prices dropped twenty-four percent.

(2) In 24 of the 36 years under review the calculated prices were within 10% of the actual price levels. However, of these 24 years, when the market was indicated as properly valued, 13 years were followed by years in which the actual price levels changed by more than 10% of the annual average. A percentage of accuracy here of less than 50% did not do much to lighten our growing dissatisfaction with the system.

(3) Actual stock prices showed a major change, say 15% or greater of the annual average, in 19 of the 36 years under review. However, in the 19 years immediately preceding these of major changes, the years when the chips were down, the accuracy of prediction based on the calculated prices was appallingly low. The calculated prices correctly indicated the market as being seriously either overvalued or undervalued in only four of these

nineteen years. Unfortunately, not only do the calculated prices fail properly to evaluate pending crucial changes in the market with any reliable degree of certainty, but no apparent pattern to their deviation appears readily perceptible.

Conclusions as to whether or not Dr. Roos' system does work and can be worked with are now apparent. First of all—if this system is devised solely to indicate the "proper" level of actual stock prices, around which the market may fluctuate widely, impelled by fanciful or intangible reasons and only approaching the calculated price in occasional periods of "reality," then this is a system for philosophers and not investors confined to the hard reality of decision making in the present. If, however, this system is designed as a practical tool for the investor, then the shortcomings revealed by our examination are very real indeed. We have assumed the latter premise to be the case, and the vision we at first enjoyed of a tighter grasp of that will-of-the-wisp, greater mental ease in predicting the vagaries of the market, has faded away. While the degree of accuracy displayed in valuing market levels in years preceding only minor price changes was encouraging, the performance of the calculated prices in valuation of years immediately preceding major price fluctuations left much to be desired. Prediction based on a "mathematical" valuation of market levels appears fraught with danger. Perhaps a greater degree of accuracy of valuation can be arrived at through refinement of the basic factors used in the computations. However, while awaiting such further automation of the decision faculty, we must remain reconciled to the continued necessity for the exercise of judgment based on a variety of intangible as well as tangible factors in analyzing the market.

DONALD C. MARSDEN

Bernstein-Macauley, Inc.,
341 Madison Ave.,
New York 17, N. Y.
June 1, 1956.

R. G. Johnson Opens

SHREVEPORT, La.—Richard G. Johnson is engaging in a securities business from offices at 906 Candler Avenue under the firm name of Richard G. Johnson & Co.

Form US-Can Securities

JERSEY CITY, N. J.—US-Can Securities Inc. is engaging in a securities business from offices at 1 Exchange Place. Officers are Edward H. Fingard, President; Richard Allen, Vice President; and Margaret Allen, Secretary-Treasurer.

With Columbia Secs.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Bernard S. Alvarado, Harold E. Hale, Harvey W. Holbrook, John W. Llewellyn and Leon C. Quillin have been added to the staff of Columbia Securities Co. Inc. of California, 225 South Beverly Drive.

Four With J. D. Creger

(Special to THE FINANCIAL CHRONICLE)

WHITTIER, Calif.—Howard C. Cantonwine, Donald W. Creech, H. Stephen King and Lawrence L. Root have become affiliated with J. D. Creger & Co., 124 North Bright Avenue.

C. M. Downing Co. Formed

C. M. Downing & Co., Inc. has been formed with offices at 15 William St., New York City, to engage in a securities business.

(This announcement is neither an offer to sell, nor a solicitation of offers to buy, any of these securities. The offering is made only by the Offering Circular.)

NEW ISSUE

The Sessions Clock Company

299,950 Shares of Common Stock
(Par Value \$1 Per Share)

Offering Price: \$1.00 Per Share

The Offering Circular may be obtained from the undersigned.

Gearhart & Otis, Inc.

74 Trinity Place

New York 6, N. Y.

WHitehall 3-2900

TABLE I

In years Dr. Roos' calculated price indicated actual stock market prices as—	Following years showed:		
	Incr. in actual price level of more than 10%	Decr. in actual price level of more than 10%	Actual price level remained stable (+ or - 10%)
1. Undervalued by more than 10%	7	1	—
2. Overvalued by more than 10%	1	2	1
3. Properly valued (actual price level within + or - 10% of calculated price)	11	2	10

SOURCE: Standard & Poor's 50 Ind. Stocks Price Index and Tables II and III in "What Makes Stock Prices," Commercial and Financial Chronicle May 12, 1956.

TABLE II

Years Immediately Preceding a Major Change (say 15% or Greater) of the Annual Average on Actual Stock Levels

Years followed by increase in actual price level—	*Valuation of actual price levels per Dr. Roos' calculated prices	Action of actual price level in subsequent year (% changes)
1921	Stable	+21
1924	Stable	+26
1926	Stable	+25
1927	Stable	+35
1928	Stable	+26
1932	Undervalued	+42
1933	Stable	+19
1935	Stable	+45
1942	Overvalued	+34
1944	Undervalued	+19
1949	Stable	+23
1950	Stable	+24
1953	Stable	+22
1954	Stable	+40
Years followed by declines—		
1920	Stable	-19
1929	Undervalued	-30
1930	Overvalued	-56
1931	Overvalued	-96
1937	Stable	-24

*STABLE—Actual price within + or - 10% of calculated price level.

OVERVALUED—Actual price more than 10% above calculated price level.

UNDERVALUED—Actual price more than 10% below calculated price level.

SOURCE: Standard & Poor's 50 Ind. Stocks Price Index and Tables II and III in "What Makes Stock Prices"—Commercial and Financial Chronicle, May 12, 1956.

Continued from page 5

Observations . . .

girl. We wish to congratulate you, and to wish the baby the best that life has to offer.

One of the best ways, we feel, to insure a good life for your baby is to start investing NOW regularly in the excellent growth companies of America. There is no time like the present for commencing such a program, for by procrastination it is surprising how days and even years fly by us.

We are members of the New York Stock Exchange, and among our excellent facilities we are proud to boast of our fine research department. We wish to place these facilities at your disposal.

We shall be only too happy to discuss our views as to the proper securities, with excellent growth possibilities. Won't you let us be of service to you? We know you won't regret it in the years ahead.

In the meantime, we once again wish to take this opportunity to congratulate you on the new arrival.

Very truly yours,

INVESTMENT ADVICE FOR THE AGED

A circular letter sent to your columnist, expanding on a "special situation." (Modern version.)

(Financial Consultant since 1927)

DEAR SIR:

A hard-headed capitalist told me once—if you want to amass a fortune in the stock market—you must:

- (1) Foresee clearly the shape of world-wide economic events for the next decade.
- (2) Find the industry that is destined to benefit from such over-riding economic conditions.
- (3) Select a "special situation" in that industry where the profit potential for the common stock promises a ceiling unlimited.

We believe that we have found such a "special situation!"

(1) It sits astride important trade routes of the Western World. It has a veritable storehouse of basic mineral deposits at hand and in prospect that "hard money" is trying to buy. This mineral wealth is needed to implement the economies of capitalistic nations as they progress under the aegis of Article 2 of NATO.

(2) There is an ever-expanding demand for the basic supply that this "special situation" has in hand and in prospect. Herein lies the future of profits unlimited in the decade ahead, . . . as great nations move forward without surcease to knit more closely the economic warp and woof of international trade. In the final analysis—this is capitalism's answer to communism!

(3) This "special situation" has contracts in hand and others in various stages of finalization. About a year ago (using our proven methods) we calculated and published a profit potential of 12 to 15 times the then market price of this [sic] "special situation." We shall be forced to double these price projections (more or less) as soon as current negotiations are finalized. These projections appear to be only the beginning!

Small wonder that hard-headed clients of this office, who have studied all the data we have mailed to them, report that they are accumulating—by "dollar averaging"—large blocks of this "special situation" stock for long pull holding.

Since—"intensity for value bids with time"—may we suggest that—as of now—you owe it to your financial future to at least procure and peruse copies of all the data that we have released thus far to investor clients.

Respectfully submitted,

Lehman Group Offers Home Oil Debentures

Public offering was made yesterday (June 27) of \$7,500,000 Home Oil Co., Ltd. 5% convertible subordinated debentures, due July 1, 1971. One-half of the total principal amount is being underwritten by United States underwriters headed by Lehman Brothers and offered in this country, and the other half is being underwritten and offered in Canada by a Canadian group managed by Wood, Gundy & Co., Ltd. Principal of and interest on the debentures will be payable in Canadian money. The debentures offered in the United States are priced at 101.688% and at 100% in Canada.

Net proceeds from the financing will be added to the general funds of the company and be available for expenditure in connection with expansion and development of the Home's business and property, and for other corporate purposes. The company, incorporated in Canada in 1929, engages in the exploration for and production of crude oil and natural gas. Sales during the three months ended March 31, 1956 totaled \$2,000,744 and net income was \$415,308, which compared with sales of \$1,665,967 and net income of \$192,875 in the first quarter of 1955.

The debentures are convertible

into class A shares of the company at \$15 (Canadian) per share.

Sinking fund provisions require the company to retire \$565,000 principal amount of the debentures annually beginning July 1, 1961 through July 1, 1970; at its option the Home may retire up to an additional \$565,000 in each of those years. For the sinking fund the debentures will be redeemable at 100% and accrued interest. In addition, the company will purchase for retirement \$225,000 principal amount annually to the extent such purchases can be effected at less than 100%. They also are redeemable at the option of the company at prices ranging from 105% to 100%, plus accrued interest.

Members of the group offering the debentures in this country, include: Bear, Stearns & Co.; A. G. Becker & Co., Inc.; Blyth & Co., Inc.; Lazard, Freres & Co.; Smith, Barney & Co.; Stone & Webster Securities Corp.; White, Weld & Co.; Allen & Co.; J. Barth & Co.; J. C. Bradford & Co.; Burnham & Co.; and New York Hanseatic Corp.

A. N. Economou Opens

Arthur N. Economou has opened offices at 436 West Twentieth Street, New York City, to engage in a securities business. His firm will be known as Arthur N. Economou Associates.

Public Utility Securities

By OWEN ELY

Florida Power Corp.

Florida Power Corporation's service area consists of 31 counties in central and northwestern Florida, with a population of about 750,000. It includes two of the three fastest-growing areas in the state, St. Petersburg and Orange County. The subsidiary, Georgia Power and Light, serves 19 counties in South Georgia.

Principal industries served are citrus packing and canning plants, phosphate mines and lime rock mines. Other important factors are agriculture, raising of citrus fruits and vegetables, cattle raising, dairying, lumbering, naval stores, fishing and sponge fishing. Residential sales provide 43% of revenues, commercial 26% and industrial 17%.

Florida is continuing its consistent and rapid growth. The company's revenues increased 341% in the past decade, while the electric utility industry as a whole gained only 140%. Florida's residential construction was \$213 million for the first 4 months of 1956 vs. \$202 million for the same period last year. Non-residential construction was also slightly above last year. For the first 4 months of 1956, the company connected 7079 new services vs. 6659 last year. For the first 5 months revenues gained 13½%. Share earnings are running sharply higher this year.

A very favorable factor is the new Sunshine Skyway—a 15-mile crossing spanning the mouth of Tampa Bay, and converting the peninsula on which St. Petersburg is built to a funnel for north and south bond traffic and trade. In the first full year of traffic on this bridge, revenues were 57% above the forecast, and they are now running 10% ahead of last year's. The new Florida Turnpike under construction should be of direct benefit to the area served by the company. Many additional miles of 4-lane highways will also be built through this area if the pending Federal Highway Program is enacted. The total construction cost of these two major roadbuilding programs will amount to over \$650 million.

The proposed natural gas pipeline, if approved by the Federal Power Commission, will be serving all the company's major power plants by 1958. The company is already buying natural gas for the Suwannee River Plant in North Florida at a saving of 25% under the cost of oil. The contract price with the Houston Company will permit at least a 20% saving in fuel costs at company plants where gas service is cheaper than oil. This saving will of course be passed on largely to the consumer. The availability of natural gas

means that certain new types of industries will now be interested in a Florida location. Also, Florida's favorable political business climate seems assured for the next four years, at least, as Governor Collins and his administration recently received an overwhelming endorsement. An active advertising and development program will be continued in order to attract new residents and new industries. The State Development Commission is swamped with inquiries, as are the Chambers of Commerce. The company's Industrial Development Department is at its highest level of activity.

Many nationally-known concerns have already established operations in the area served by Florida P. & L. The factors that brought General Electric and these other manufacturers to Florida should bring many hundreds of others. Climate is the main asset, since it enables industries requiring highly technical personnel to attract these employees to the state.

Florida today has almost 4 million people, and the Census Bureau estimates that by 1965 it will reach the 5 million mark. This should make it the largest state in the Southeast and the tenth largest in the country. Industry and commerce will have to expand in the area to serve this rapidly increasing market, as well as the markets among the 35 million people in the southeastern states to the north and the 45 million people in the Caribbean area south of us.

Last November the company's first 75,000 kw unit went into service, and the second will go in this fall; in early 1958 the first 120,000 kw generator is scheduled to go into operation. The installation of these larger units will reduce costs and improve operating efficiency.

Almost 50% of residential consumers use electric ranges and water heaters—versus a national average for ranges of 28%, and for water heaters 16%. Appliance sales in the first four months of

this year were 18% above last year. President Clapp feels that the electric appliance with the greatest potential is the "heat pump." Today the company has more of these units on its system than any other utility, with 1298 commercial installations and 1075 residential—approximately 40% of all heat pumps in use today in the country. The average small home can install year-around air-conditioning at an approximate cost of \$2,500, and the heat pump brings in additional revenue of \$174 annually to the company. The objective is 25,000 units by 1961.

While Florida Power Corp. had regulatory troubles years ago with the old Pinellas County Board, its relations with the State Commission have been much happier. The Commission granted the company a rate increase in August 1953, allowing a return of 6.45% on a year-end rate base (currently the company is earning about 6.3%). Moreover, all the company's rate schedules were adjusted to include a fuel clause and a commodity clause—the latter being based on a construction cost index.

The company has maintained a heavy construction schedule and expects to spend about \$33 million a year over the next two or three years. Future financing is expected to include \$20 million bonds in the near future, a common stock issue in the late spring of 1957 and later another bond or preferred stock issue.

Earnings for the 12 months ended May were \$2.51 a share, compared with \$2.30 for calendar year 1955. President Clapp estimates earnings for this calendar year at \$2.69. The dividend rate is now \$1.60 but with a payout policy of 70-75%, an increase would appear to be in the offing. The stock has been selling recently around 49 to yield 3.3%. At that price the PE-ratio based on the estimated 1956 earnings is 18.2.

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SAN FRANCISCO, Calif.—Robert Jesberg is now affiliated with J. Barth & Co., 404 Montgomery Street, members of the New York and San Francisco Stock Exchanges. He was previously with E. F. Hutton & Company.

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities. The offer is made only by the Prospectus.

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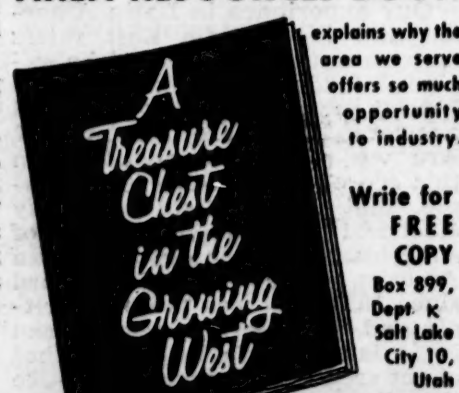
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Continued from page 4

Role of American Business In Aiding the Free World

their peoples to do so. Even so, it seems probable that in their zeal they have allocated to government too large a role—a fact which I believe experience is bound to prove to them.

Intergovernmental Cooperative Effort

Looking to the positive side, perhaps the most helpful role developed by governments in the postwar years lies in fields that involve cooperative effort on the part of two or more nations. The work of the international agencies is a case in point. The World Bank, for example, can and does make a contribution which increases the opportunities for private business rather than reduces them. The same can be said for the various technical assistance programs; for the activities of O.E.E.C. in Europe, and for the Colombo Plan in Southeast Asia; and for work carried out under the Geneva Conference on tariff and trade—the so-called GATT program. Certainly, there is no denying that one of the profound changes for world business in recent years has been the vast growth in the role of government, both domestically and in the international field. It is a trend over which those in all lands, including the United States, must maintain a continuing vigilance, reassuring themselves constantly that government is indeed acting to serve the best interests of its citizens.

Importance of American Business Abroad

These then are some of the broad developments of recent years that have a bearing on both the responsibilities and opportunities that face American business in its operations abroad. We might now ask ourselves what these developments add up to—what is their meaning for our international business? First, I believe it can be said that taken as a whole, the international activities of American business today are tinged with a national interest as never before. When a United States company ships specialized machinery to Western Germany, it helps strengthen an area which is vital to us. When one of our metal producers develops a new copper supply in Africa, he contributes both to our future defense and to our standard of living. And when an American investment firm provides dollar funds for capital imports into India, it affords much needed help to a nation whose friendship we value highly. This does not mean that national interest is the sole or primary consideration in determining the shape and extent of our foreign trade and investment. The interests of shareholders and employees continue to be paramount factors and private business cannot be expected to carry out ventures that are inconsistent with them. Yet to the interests of shareholders and employees there must often be added today, in a degree never before recognized, a third consideration—the public interest. The problem of management is to be cognizant of all three and to move ahead in harmony with each of them.

We should look for a moment at the record of American business to determine how it is discharging this international responsibility. I doubt that there is wide understanding of the degree to which business today is contributing to the world economy. All told, American companies now are providing products to other countries which, it is estimated, have a value approaching \$35 billion. Of this total some \$15 billions repre-

sent direct exports, while the remaining \$20 billions represent the output of American branches and subsidiaries located abroad. This is a huge total indeed. It is almost as great as the entire national product of Western Germany, which today is a major exporting power, and it is larger than that of all Italy. Moreover, this contribution of America is being made throughout the whole Free World to the industrial countries of Western Europe, as well as to Latin America, Southeast Asia and other areas.

Impact of Our Exports

I believe the impact of our exports is readily evident in most sections of the world. Heavy construction equipment from America can be seen building roads, dams and railroads the world over; electrical equipment is going into new power facilities; specialized machinery is being installed in new factories; and much of Western Europe and Asia still use our agricultural materials. Indeed, when one analyzes our export list, it becomes evident that almost three-fourths of shipments either are necessary food and raw materials or machinery essential to manufacturers. This high proportion is itself an index of the significant role which our exports play in the countries receiving them.

It is when one turns to the activities of American branches and subsidiaries abroad that I feel our contribution tends to be underestimated. These activities, of course, are the tangible results of the huge investment which United States companies have made in other lands—a total of almost \$18 billion at the last counting. But much more than money and capital has been poured into these endeavors. They represent the main channels through which other countries reap the benefits of American research, and of American techniques of management and manufacturing. And again it is not only the under-developed countries that benefit from this process. Even a country as advanced as Great Britain has some 800 United States companies operating in it today, and they have left their mark on such diverse fields as chemicals, autos, heavy machinery and food processing. As a matter of fact, a recent study of these companies suggests that because of them competition in Britain is stronger, prices are lower, and many management standards are higher. Moreover, of great importance to Britain, exports are undoubtedly larger than they otherwise would have been.

Benefits Not a One-Way Flow

But these benefits from both trade and foreign investment are not a one-way flow, as I already have suggested. American companies would not engage in foreign business if it failed to be profitable. Somehow or other, I am never much impressed by statements that our exports are less than 4% of our gross national product or that foreign earnings which are remitted to the United States represent an annual return of only 8% on capital investment. I know that many firms remit only a part of their earnings and that a good share is used for further expansion. And I am more impressed by the fact that a certain large machinery producer, which is a good customer of ours, exports a third of its product, or that another domestic producer of national repute with which we do

business has almost half of its investment overseas. Averages can be misleading and the fact is that business abroad provides a very essential margin for a great many important companies in the United States today. Nor must we forget the significance of the raw materials which the United States obtains from other lands. Life would be rather complicated for us without oil from Venezuela and the Middle East, copper from Chile and Africa, and, in growing measure, iron ore and newsprint from Canada.

There is not a shadow of a doubt but that United States business with its great needs and vigorous activity is making an indispensable contribution to the growth and welfare of the Free World, as well as to the continued health of enterprise in our own country. But the past decade has been an unusual one in many respects. It has been a period of extraordinary expansion and adjustment and we have been left with a legacy of difficult problems which remain unsolved, both political and economic. In the face of these, what is the outlook for United States business abroad and where can we best concentrate our efforts, both for the public and our own self-interest? These are not easy questions and I do not suppose they will all be satisfactorily answered this afternoon. For my own part, I have only a few rather broad observations which I hope may help to point the way for some of our deliberations.

Expect Heavier Foreign Competition

First, I think it is clear that we all must expect heavier competition in the period ahead. I recently took a rather extended trip throughout the Middle East and I was impressed with the variety and number of missions, engineers and salesmen who are traveling that road. One saw them everywhere, in Beirut, in Cairo, in Damascus, and even in the remote fastness of Arabia. In addition to Americans, there were Germans, Dutch, French and even some Japanese. Perhaps these gentlemen remained in the shadows on previous trips, but for some reason I suddenly was highly conscious of them, particularly of any who were bankers! It is no secret that the Germans in particular have been making a strong bid for trade in the Middle East helped in the initial stages, at least, by some rather generous credit arrangements facilitated by the government at Bonn.

The same trend is evident in Latin America, a market which is closer to us and one that in recent years we may have taken too much for granted. In 1947 the United States supplied two-thirds of Latin-American imports. Admittedly this was artificially inflated by wartime developments. At any rate, by 1950 our share had come down to 52% and since then it has gradually slipped to 48%.

Our experience in Latin America and the Middle East raises many questions that might be explored today—questions to which I don't pretend to know the final answers. How are our prices? Are we staying competitive on this score? I am told, for example, that in the field of heavy electrical equipment sales of American companies to Latin America have dropped a third since 1951, whereas those of Britain and West Germany have risen 50%. Is price a factor here? What about credit? Then again, I notice that the number of farm tractors we ship to Latin America is off 30%, while those provided by West Germany and Britain are up 245%, a total now actually greater in number than ours. Other producers seem to ship diesel tractors, while many of ours

use gasoline. Are we adjusting to the changing needs of the market? Does this make a difference?

And above all, what about dollar availability? The big increase in our exports last year was to Western Europe, while shipments to friendly neighbors like Brazil and Colombia slipped lower, apparently because of lack of dollar exchange. I personally doubt that the world suffers from any general dollar shortage or that it will in the near future. Not only are our military and aid expenditures in other countries likely to stay fairly heavy for some time, but our imports should also continue to grow. Indeed, if the American economy operates at the high level of which it is capable, imports a decade hence may exceed \$16 billion, a rise of more than a third. Even so, dollars from these imports will, of course, not be spread evenly throughout the world, so that the dollar problem may continue to plague individual nations and cause some distortion in the pattern of trade.

Certainly we must all be prepared for greater competition in the period ahead—in terms of price, quality and monetary considerations. It might even be that some of our friends in countries like Britain, Germany and Japan, which must export or die, will have a need to sharpen their pencils more than we. In these circumstances it may turn out that the trend of recent years toward establishing branches or subsidiaries in such countries is a middle ground that works increasingly to the advantage of all.

Soviet Type of International Competition

But there is another source of competition that is rising to confront us—one that I mentioned earlier as being less friendly, and which is apt to play by its own rules of the game. I refer to the growing activity of the Soviet Bloc in world markets and particularly to its efforts to expand trade relations with the under-developed countries. This is certainly not a matter to be taken lightly. The Soviet Union now has an industrial capacity second only to ours, and it is expanding rapidly. The day will come when the Soviet Union too will have its surpluses, and it will have fewer compunctions as to costs and relations with allies in disposing of them. Indeed, one of the gravest dangers from the Soviet is its ability to use foreign trade as a deliberate instrument of foreign policy, regardless of cost. We see it at work already in the Middle East and Southeast Asia. Last year the Soviet Bloc provided a market for one-fourth of Egypt's exports, as against only 14% in 1954. And in Southeast Asia it has taken over a major part of external trade with Afghanistan and is the source of growing flow of supplies to Burma, India and Indonesia. The New York "Times," for example, recently reported that about 25% of Burma's imports are now flowing from the Soviet Bloc.

Yet with all its political strength, we would make a mistake to exaggerate the Soviet Union's competitive position. There is a rigidity in the Soviet approach to trade that must result in some very serious limiting factors. Trade arrangements are made with other nations on a bilateral basis, and thus far the items that the Soviet has had to offer have been limited in number and delivery has not always been good. Both Argentina and Britain, for example, have found Soviet deliveries taking longer than expected. And there are a number of indications that the flow of Soviet supplies has not been satisfactory.

But I do not think that we can take any very great satisfaction from these particular incidents, as past experience should demon-

strate that in spite of certain cruelties of approach, the Soviets are capable of remarkable achievements in industrial production. We have to look the facts squarely in the face and determine just what the extent of the Russian competition is apt to be both in its effect upon the trade of the Free World nations and upon us. This is certainly one of the major questions before us.

I do not expect us to be the loser in this new phase of the continuing struggle with the Soviets. But it is another factor that will act to keep us on our toes. Nor is the challenge limited only to the export field. Perhaps of even greater importance is the assistance that might be offered to under-developed countries in the form of investment to aid their growth. Already the Soviet Union has extended credits to these countries amounting to more than \$500 million.

Aid to Underdeveloped Countries

For the Western World such assistance, of course, is a complicated process—one in which governments, international organizations and private business all must cooperate. Yet it is not a task of unmanageable proportions, as some would have us believe. True, there are at least one billion people in these areas, while our own population is barely one-sixth as great. But such a comparison ignores the vital fact that our \$400 billion economy carries about three times the productive power of all the underdeveloped areas combined.

The United States is long on capital and relatively short on manpower, while the under-developed countries are just the reverse. Even so, their capacity to absorb increased capital is limited. Today, total investment yearly in the under-developed areas is on the order of \$13 billion, and of this amount, foreign sources, public and private, finance something more than \$1 billion. It is estimated that an additional \$1 to \$2 billion yearly is about all that could be handled in the near future—less than is being spent in 1956 by one of our largest corporations. This \$1 to \$2 billion obviously won't produce any revolutionary results overnight, but revolutionary results in most countries are not attainable. What it can do is to assure a steady progress that at least gives hope for a stable and more productive future. The alternative, without such help, appears to be a mere stand-off in the race with population growth, a solution which will never be acceptable.

Certainly the Western World can afford the investment necessary for the under-developed areas. The big problem is how to organize it, how to manage it, and particularly how to enlist the support of private capital. When we look at the record of American companies in the lesser developed countries, it can only be labeled a mixed one. We have been most successful in areas where opportunities to develop resources or markets appear abundant, and where outside capital has been welcome. Certain countries in Latin America and the Middle East stand out in this regard. On the other hand, we have been least successful in Southeast Asia, which is an area that urgently needs assistance.

There are many reasons for this mixed record of investment in the under-developed areas. Very often one of the most important is the extreme nationalism, to which I have already referred. Frequently this finds an outlet in the form of restrictions and discriminatory practices that sharply limit the activities of foreign businessmen. Sometimes the threat of expropriation hangs over the investor, and there is always the possibility of political change and even war. We can't overlook the

fact that at times in the past investors have suffered some brutal losses in the foreign field.

In the face of all this I have a tendency to feel puzzled and uncertain as to the best way to build up needed investment in the under-developed lands. Thus far in the postwar period we appear to have favored a mixed approach, with both government and private business contributing. It needs to be recognized, however, that a mixed system of this character creates problems of its own, particularly in areas that may run into exchange difficulties. How do private investors and government creditors queue up in such an event? Is there danger of a kind of Gresham's Law operating here, with government investment driving out the private, no matter how good the latter?

I must confess that I don't know the answer to these questions. Perhaps there are no final answers, and no immediate solution to the problems confronting the investor in the under-developed lands. We may be faced with the alternative, then, of doing nothing and letting governments carry on alone in default, or of moving ahead in the face of all the uncertainties, exercising reasonable caution and considerable courage. Of these two alternatives, I very much prefer the latter. Moreover, I am optimistic enough to believe that the under-developed countries themselves will gradually come to recognize the great advantages to be gained from private foreign investment.

Dynamic Private Investment

Such countries should never be allowed to forget that it is the private investor who often works in the most dynamic sectors of the economy—those which are susceptible to maximum growth and which earn essential foreign exchange. Moreover, it is private investment which usually carries with it technical and management skills that are as scarce and necessary as capital itself. It is no accident that over one-third of United States imports from Latin America are produced by companies that represent United States investment—imports that are highly valuable to us and which enable the Latin Americans to buy machinery and other items that are even more important to them.

If American business is to move ahead with foreign investment, and particularly in the under-developed lands, those concerned with the matter must gain an intimate knowledge of the countries involved—knowledge not only of the economic forces at work, but of the political as well. It is not enough to have a vague impression that the Communists in a particular country are gaining ground, or that the balance of payments in a particular year looks shaky. American business needs men who possess the same detailed knowledge and understanding of other lands that the Bostonian has of Massachusetts. In no other way can we even begin the task of seriously evaluating risks.

Men of the type needed for our foreign business are not created overnight. For this reason, among others, progress on the problem of foreign investment in the under-developed lands may not come in a hurry. Yet such progress seems inevitable to me. Just as I cannot imagine this nation living in isolation, I cannot foresee American business, with its immense stock of capital and technical know-how, standing apart from the billion people or so who will benefit from the assistance we can bring to them. For the West, such assistance is not merely a matter of helping other lands build up their own strength as a counter to possible Soviet encroachment, although that can be an important by-product. Rather, investment in the lesser developed

countries seems to me to be a natural expression of our times, an inevitable challenge and outlet for the talents and energies of the more advanced sectors of the Free World economy. I have no doubt whatsoever that the necessary institutions and arrangements will emerge to give body to this expression. I hope some of the seeds can be planted here in the nutritious soil which now borders both banks of the Charles.

With Witherspoon Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Clarence A. Neal, Jr. has become connected with Witherspoon & Company, Inc., 215 West Seventh Street.

Weeden Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Claude E. Elias, Jr. has become connected with Weeden & Co., 510 South Spring Street.

Joins United Western

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, Calif.—Eugene J. Ballantyne is now with United Western Securities Inc., 1419 Broadway.

Now With E. S. Hope

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, Calif.—John B. Pritchard is now with E. S. Hope & Co. Inc., 415 Laurel Street, members of the Los Angeles Stock Exchange.

Joins Curran Staff

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif.—Jay C. Germain has joined the staff of The Curran Company, 4336 Fourth Avenue. He was formerly with Richard A. Harrison and Mutual Fund Associates.

Ball, Burge Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Edward M. Meyers is now connected with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Midwest Stock Exchanges. He was formerly with Saunders, Stiver & Co.

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SACRAMENTO, Calif.—Arthur D. Leavell is with Richard A. Harrison, 2200 16th Street.

Ervin E. Stein Adds

(Special to THE FINANCIAL CHRONICLE)

SACRAMENTO, Calif.—James M. Cunningham has been added to the staff of Ervin E. Stein, 1414 Broadway.

Brush, Slocumb Adds

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SAN FRANCISCO, Calif.—Richard D. Olney has been added to the staff of Brush, Slocumb & Co., Inc., 465 California Street, members of the San Francisco Stock Exchange.

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

It seems as though the money market is now in one of those waiting periods, trying to figure out which way the wind is going to blow. There appears to be rather divided opinions around now among money market specialists. There are questions as to whether there will be a continuation of the tight money policy, with the passing of the June 15th income tax payments, or will there be a modest easing in money conditions? There is, however, considerable agreement that a part of the tension which surrounded the money market has been relaxed.

Bulk of Activity in Short-Terms

Volume and activity is still largely confined to the short-term Government market, with the intermediates and longer maturities showing the tendency to move down a bit on not too much volume. Among the most distant Treasury obligations, the 3s of 1995 continue to be the leaders, with new money as well as switch money being invested in this bond.

The loans to business by the member banks of the system last week were large and reflected principally borrowings by corporations in order to get funds which were used to pay June 15th income taxes. In the first half of this year, corporations had to pay 90% of the income taxes accrued for the whole year of 1956.

Federal On Sidelines

For the second week in a row the Federal Reserve Banks did not give any direct help to the banks in the system. The two previous weeks substantial purchases of Treasury bills had been made by the Central Banks. The commercial banks met the heavy loan demands incident to the June 15th tax payments by a modest increase in discounts at the Reserve Banks, along with some indirect assistance through a seasonal expansion in Federal Reserve Bank credit given against uncollected checks. This is known as the "float".

Some money market specialists appear to be concerned about the fact that the Federal Reserve Banks did not act to ease the money markets further through direct action. This lends support to the opinions held in some quarters that the aid given recently to the money markets was intended to give help only to the banks for the June 15th income tax period. It may be that there will be a modest firming of interest rates, with the passing of the income tax period.

Lower Acceptance Rate Significant

On the other hand, the recent lowering of the Bankers Acceptance rate by $\frac{1}{8}$ of 1% is being looked upon in other quarters as an indication that money rates will continue to ease moderately. This reduction by dealers in acceptance rates was the first since a temporary decrease was made last October.

Demand for credit continues to be large, and loans may still stay on the upside for a short period of time, which could bring about a minor firming of interest rates. The pattern of business, however, will be the dominating force in the future trend of interest rates and credit. It is also evident that opinions are still very prominent in the financial district that some easing in money conditions is to be expected in the not too distant future, because of the defensive developments which have come about in the economic situation.

New Money Borrowing by Treasury

Treasury financing is beginning to get some consideration as far as the money market is concerned, with expectations that some \$2 to \$3 billion of new money will be coming along in July or August, probably through the issuance of near-term securities. Also \$12.5 billion of Treasury notes will mature in August and \$1 billion of bonds in September. These operations should be handled with very little effect upon the money market, and with the Federal Reserve Banks owning \$75 billion of the maturing notes, a rollover of these securities can be taken pretty much for granted.

Investors Marking Time

Trading in Treasury securities is still at a slow pace, because investors appear to be inclined to assume a waiting attitude at this time due, it seems, to two things; first, because yields on several Government obligations have reached levels that make other types of investments more attractive, especially new issues. Secondly, pension funds, one of the main buyers of the most distant Treasury bonds, are evidently making preparations to make commitments in the large offering of American Telephone bonds which is coming soon. This issue is expected to be priced to go well.

Harry B. Lake and Others On Board Directorate Of Minerals Incorporated

Harry B. Lake, Senior Partner of the investment banking firm of Ladenburg, Thalmann & Co., New York City, has been included on the directorate of Minerals Incorporated, it was announced by Chairman Hugh Fulton of the recently organized company. Other directors include: Thayer Lindsley, who was the founder and is the Chairman of the Board of Ventures Limited; Leonard J. Buck, the President of Leonard J. Buck, Inc., mine owners and mineral and metal brokers, and a director of Ventures Limited; Frederick D. Gearhart, Jr., who is President and a director of the investment banking firm of Gearhart & Otis, Inc.; Hugh Fulton,

senior partner of Fulton, Walter & Halley, a New York law firm; Dr. John R. Dunning, Dean of Columbia University School of Engineering and the Director for Scientific Research of Columbia University; Philip D. Wilson, a consulting mining engineer in New York City and former Vice-Chairman for Metals and Minerals for the United States War Production Board; Joseph W. Frazer, who has been Chairman of Board of Graham-Paige Corporation, President of Kaiser-Frazer and of Willys Overland Motors, Inc., and President of Standard Uranium Corporation; and Leo T. Norville, senior partner of the Chicago law firm of Norville & Dent.

Minerals Incorporated plans to issue 2,500,000 shares of common stock via an underwriting by Gearhart & Otis, Inc.

Kuhn, Loeb & Co. to Admit New Partners

Kuhn, Loeb & Co., 30 Wall St., New York City, members of the New York Stock Exchange have announced that Siegmund G.



David T. Miralia

Warburg and David T. Miralia will be admitted to the firm as general partners as of June 30, 1956.

Mr. Warburg's partnership follows the arrangements made three years ago at which time he received full power to act on behalf of the firm. A naturalized British subject, Mr. Warburg is Chairman of S. G. Warburg & Co., Ltd., London and will continue to reside in London. He has extensive business interests in the United States and Canada. He is Chairman of Brandeis, Goldschmidt & Co., Inc., New York, metal merchants, a subsidiary of the London concern of the same name, which is controlled by S. G. Warburg & Company Limited. Mr. Warburg is also a Director of various companies in Canada and the United Kingdom, such as Toronto & London Investment Co. Ltd., Transoceanic Development Corporation Ltd. and Triarch Corporation Ltd., Toronto, and British and French Bank (for Commerce and Industry) Ltd., Jessel Toynbee & Co. Ltd., Private Enterprises Investment Co. Ltd. and Thames Plywood Manufacturers Ltd., London, and Lobnitz & Co. Ltd., Glasgow.

In 1928 Mr. Warburg became one of the chief executives and in 1930 one of the partners of M. M. Warburg & Co., Hamburg, a family banking concern founded in 1798. In 1938 the family was forced by the Nazi government to dispose of its interest in the firm. At that time Mr. Warburg, with others, formed the New Trading Company Ltd., London, and after World War II, when the company's name was changed to S. G. Warburg & Company Limited, it became active in placing and issuing business in Great Britain, as well as in developing its interests and connections in various parts of the world, particularly in North America.

Mr. Miralia recently joined the firm as Manager of the Municipal Bond Department, having formerly been Vice-President, Director and Manager of the Municipal Bond Department of Halsey, Stuart & Co. Inc.

Joins A. H. Chevrier

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, Calif.—Arnold Toews has joined the staff of Archie H. Chevrier, 519 California Street, member of the San Francisco Mining Exchange.

With H. O. Peet

(Special to THE FINANCIAL CHRONICLE)

OMAHA, Neb.—Kay L. Bredensteiner is now with H. O. Peet & Co., Farnam Building. He was formerly with Eisele, Axtell & Redelfs, Inc.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—Thomas C. Pulla is now with Merrill Lynch, Pierce, Fenner & Beane, 324 South Salisbury Street.

Continued from page 2

The Security I Like Best

plasticizers and coatings. It reduces the number of steps necessary in grouping chemical processes, yet results in increased yields with greater purity.

This company is on the threshold of a new era in its chemical history, a phase which has not been prepared in overnight haste, but is the result of a calculated plan, well thought out with each part carefully considered. The forming of an organization capable of producing and marketing chemical products coincides with the maturity of the refinery program so that the shift in emphasis is so slight as to be hardly noticed.

Reserves of natural gas are reported at over 11.89 trillion cubic feet, about the fourth largest in the industry. Placing a value of 4c on a thousand cubic feet this represents a value of over \$470 million, or about \$14 a share of stock. Production of gas has shown a growth consistent with that of the industry, increasing about 4½ times since 1946.

Indiana hopes that it will be able to provide a captive market for some of its natural gas by further development into chemicals. When you have a large supply of a natural resource such as gas, it is advantageous to extract the high value chemical fractions such as ethylene rather than sell it at regulated or low prices which do not reflect the true value of this dynamic fuel.

Since 1946 Indiana has spent over \$2 billion in capital expenditures, or approximately \$200 million a year. Of this amount, about 50% was for the exploration and production of oil. This yearly rate is expected to increase to over \$220 million during the next few years, and in any one year may go as high as \$250-\$280 million. With the company's refineries in excellent shape, production will receive greater emphasis and a larger share of expenditures. The chemical's share will be much greater than in past years. Probably all of this new money will be generated from earnings and depreciation, although if new capital is needed it most likely would be in the form of long-term debt.

Net earnings in 1956 are expected to be around \$5 per share, with "cash flow" of between \$9.75-\$10.25 a share. In 1957, earnings can rise by 6%-10% after allowing for slight dilution of the common by full conversion of currently outstanding convertible debentures. This rise in earnings is based on an anticipated demand for oil and oil products of 4% above 1956; and manufacturing economies, tied in with a streamlined transporting and marketing organization. We do not expect that petrochemicals will play an important part in 1956's earnings but should be a growing factor in the earnings for 1957.

It is my feeling that Indiana is entering a period where it will be able to earn a higher return on invested capital. Until recently, the return on capital was about the same as that of the industry, but as the modern facilities which have been built in the last years start to carry their weight, the return should improve.

In 1948, Indiana decided to conserve cash by gradually distributing its stock holdings of Standard Oil of New Jersey in the place of cash dividends. This policy has proven very successful both for Indiana and for its stockholders. For the future we anticipate a more liberal attitude on cash dividends as a higher earnings base is attained. Dividends have been paid each year since 1894. At the present price of \$59 "SN" is selling at about 12 times earnings, and offers a yield of 4.1% on the

\$2.40 dividend. The stock is listed on the New York Stock Exchange.

LEONARD V. SEGAL

Investors Service Department
Dreyfus & Company, New York City
Members New York Stock Exchange
British Petroleum Co., Ltd.

British Petroleum Co., Ltd., comparatively undervalued today at about \$22 a share has earnings and dividend prospects which make it a stand out growth investment.

The company, until recently known as the Anglo-Iranian Oil Co., Ltd., became almost a household topic of discussion for a while during the latter part of Premier Mossadegh's

wild reign in Iran. The company recovered quickly from the Premier's ill-starred attempt at nationalizing it. Today it is stronger than ever and is ready and able to realize a large share of the enormous and fast-growing world wide demand for oil.

With unrestricted reserves amounting to at least 25 billion barrels, or 8.1% of the world's known supply, it is still exploring the globe for more. It holds 50% interest, for example, in Canada's Triad Oil Co., a strong and aggressive oil exploration firm.

British Petroleum owns what is believed to be the world's largest fleet of tankers which now number 144 ships with 41 additional vessels now being built. The fleet is carried at a written down cost of less than \$15 per ton (for two million dead weight tons). Building costs are actually 20 times more.

Its huge and efficient refining and marketing network in 1955 produced and distributed 336 million barrels, 25% more than in 1954. The company which is among the globe's largest refiners possesses vast refining capacities in Aden, Western Australia, Great Britain and Western Europe.

Earnings last year came to \$1.29 per share on 100-million shares, 46% higher than 1954 earnings of 88 cents a share. At today's price an investor in British Petroleum is buying equity at about 15 times 1955 earnings and about 10 times estimated 1956 earnings. The investor has an important fellow shareholder—Great Britain, which owns 56% of the stock. Great Britain will do everything in its power to protect and nourish this vital oil producer.

Barring war or other catastrophe, profits are likely to move to about \$2 a share in 1956, and to more than \$3 a share next year. In addition, the company can be expected to receive \$670 million in cash reimbursements from the just-formed Iranian Consortium. The company will channel this into capital expenditures leaving most of its current income available for dividends.

Now With Emch & Co.

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MILWAUKEE, Wis.—Harold H. Emch, Jr. is now with Emch and Company, 735 North Water Street. He has recently been with Crutenden & Co. and prior thereto with Blair, Rollins & Co., Inc.



Leonard V. Segal

"Syndicats" Hold Annual Outing

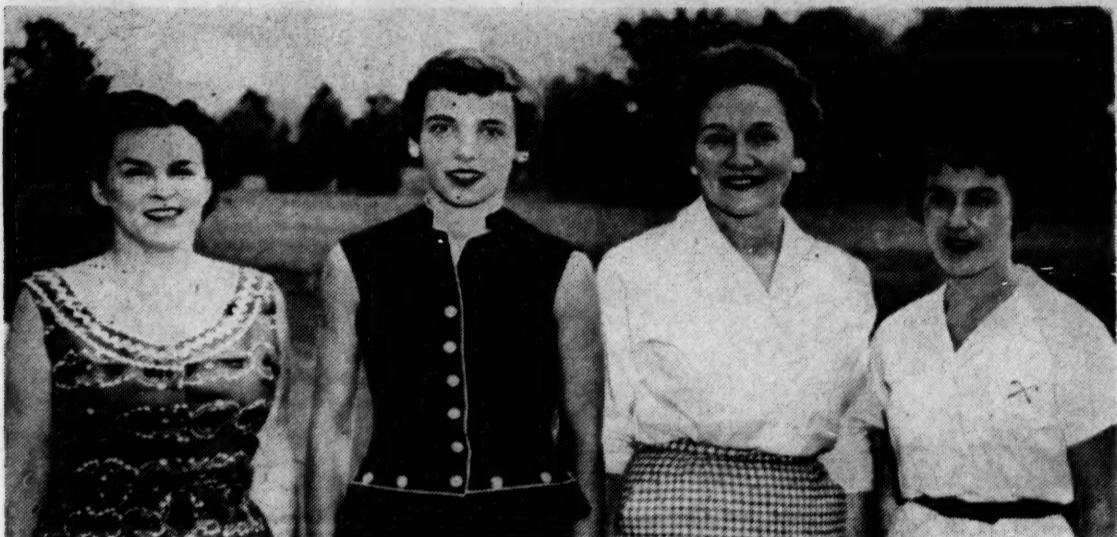
June 22, 1956 at Echo Lake Country Club



Claire Borick Friend, *Blyth & Co., Inc.*; Claire Marshall Beck, *Shields & Company*, President of "Syndicats"; Mary O'Rourke, *Reynolds & Co.*, Treasurer



Kathleen Barrett, *Equitable Securities Corporation*; Claire Hoppener, *Goldman, Sachs & Co.*; Winifred Lees, *Kidder, Peabody & Co.*



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Jane Miller, *First Boston Corporation*; Mae MacDonald, *Blyth & Co., Inc.*; Marguerite Kasle, *Riter & Co.*; Mildred Stevens, *Smith, Barney & Co.*



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Annual Outing June 22, 1956



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Emma Brehm, R. W. Pressprich & Co., Chairman; Jean Marie Davies, Wainwright & Ramsey, Inc.



Ann Gross, Bankers Trust Company; Doris Niederauer, Bankers Trust Company



Catherine Wies, Halsey, Stuart & Co., Inc.; Helen Kane

At Morris County Golf Club



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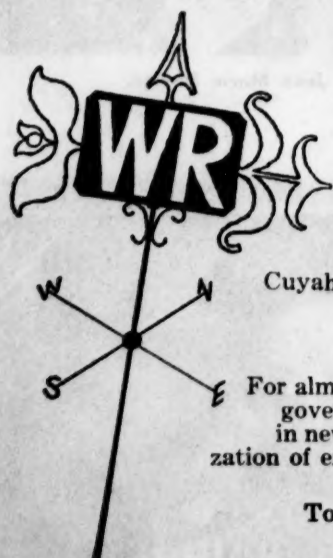
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Continued from page 13

Life Insurance Investments And the Mortgage Market

companies in order to draw funds away from certain areas of inflation such as the mortgage market. At the same time, they argued that the sale of long-term bonds to non-bank investors would make it possible for the Treasury to obtain its funds from the savings of the people and would avoid the obtaining of funds from the commercial banks' expansion of the money supply. As you know, psychological forces operating throughout the securities and mortgage markets are exceedingly potent and the mere knowledge that the Treasury was contemplating this program was sufficient to bring about a sharp decline in the prices of Government securities and a corresponding rise in Government security yields. Actually, this movement was greatly accentuated by exaggerated ideas on the part of the financial community about how much in the way of long-term financing the Treasury desired to do. In any event, the decline in prices of Government securities spread into the highly sensitive corporate bond area of investments and yields rose sharply on corporate securities, particularly on bonds placed directly with life insurance companies.

As you all know so well, this development set in motion an abrupt shift of life insurance funds away from the Government-insured and guaranteed mortgage market where rates were rigid into conventional residential mortgages and business and industrial mortgages, and particularly into corporate bonds acquired directly from the issuers. Throughout this period the combined action of the Treasury and the Federal Reserve, plus the rigid rates on FHA and VA loans, produced a drought in the available funds for the Government-insured and guaranteed market. Moreover, it led generally to a stiffening of other terms on mortgage loans beside the interest rate.

This brings us then to the second period from the Summer of 1953 pretty much through 1955. By the end of May and early in June certain basic changes had occurred which turned the mortgage market around in an entirely different direction. By the late Spring it had become obvious that soft spots existed in the business situation and the Federal Reserve moved swiftly in the direction of a policy of "active credit ease." That is, reserves were made freely available to the commercial banking system. At the same time, the Treasury withdrew sharply in its ambitions about funding the debt. At about the same time, also rather belatedly, the interest rate on Government-insured and guaranteed mortgage loans was raised to 4½% and the situation regarding discounts on GI mortgages was clarified to permit these discounts to be charged provided they were not borne by the veteran. Moreover, during the mild business downturn which occurred, the demand for industrial loans subsided.

In this situation the prices of Government securities made a rapid recovery and the yields on Government and corporate securities declined sharply over a relatively short period of time. In the face of this, the life insurance companies found mortgages, and particularly FHA and VA mortgages, a highly attractive investment outlet. It is no surprise, therefore, that beginning in the Summer of 1953 the new commitments of life insurance companies to purchase VA mortgage loans increased sharply by 375% and this rise in new commitments continued steadily through the third-

quarter of 1954. As a general rule, the VA mortgage on a yield basis and in volume was most attractive to life insurance companies from the middle of 1953 pretty much until the early Spring of this year. By the Spring and Summer of 1954 the situation of ease also affected the terms on VA and FHA mortgage loans to the point where 30-year no-down payment loans were acceptable to many life insurance companies.

Current Situation

Now, what can be said about the current situation in the mortgage market as viewed through the eyes of life insurance companies? You will be interested to know that in December of last year I sent out a questionnaire to a sizeable number of life insurance companies holding the bulk of the assets of the life insurance business asking what their plans were for investment in mortgages during 1956. The general reply by most companies was that they were planning to invest about as much money in the mortgage market this year as was true of 1955. As I mentioned earlier, last year the life insurance companies acquired a record amount of \$6 billion of nonfarm mortgages, the bulk of which were residential.

The expectation of December, I am sure, is sharply changed by now but, nonetheless, I have some figures which I think you will find interesting and reassuring. During the first quarter of 1956, the life insurance companies acquired a larger volume of nonfarm mortgages than were acquired in the corresponding period in 1955. The figures were \$1,590 million for the first quarter of 1956 as compared with \$1,414 million for the first quarter of 1955. Within this total are acquisitions of VA mortgages amounting to \$477 million in the first quarter of 1956 as compared with the lesser amount of \$433 million in the first quarter of 1955. However, as you will immediately recognize, these acquisition figures reflect past commitments and do not provide a good picture of current decisions in the mortgage market. In this connection it is significant that new commitments to purchase nonfarm residential mortgage loans made by life companies declined slightly in the first quarter of this year as compared with 1955. This decline was particularly noteworthy in the Government-insured and guaranteed categories.

What are the forces which have been operating to bring about this change in the mortgage market? They are undoubtedly painfully clear to you. Early this year we experienced a sharp expansion of commercial bank loans to replenish working capital of business concerns which was depleted by income tax payments. The building of inventories was also an important cause. Along with this, there has developed an enormous expansion of demand for capital funds from business and industry for purposes of expanding plant and equipment. This has been accompanied by a boom in the non-residential construction field. In the face of this development the Federal Reserve Board became increasingly impressed in the Spring of the year with the inflationary forces at work in our economy and proceeded to tighten its restraint upon the expansion of bank reserves and ultimately we had an increase in the rediscount rate.

Dependence Upon Cash Flow

With the availability of commercial bank loans so tight, some of the demand for loans which would ordinarily have been placed

with the commercial banks has spilled over into the long-term credit field. This, plus the huge demands in this area already at this time, has created a situation where life insurance companies are facing a heavy demand for funds from business and industry. This demand comes at a particularly difficult time in view of the fact that the life insurance companies have a heavy backlog of forward commitments, a substantial part of which will be taken down this year. Moreover, the flush days of having readily available assets to sell in order to obtain additional funds to put into mortgages have pretty much come to an end and life companies are required to depend heavily upon their cash flow.

In the face of this situation, which exists not only in the life insurance business but also with other types of nonbank institutional investors, it has been perfectly natural for flexible interest rates to rise. As a result, the yields obtainable on high-grade bonds purchased directly from the issuers have become most attractive relative to the yield on Government-insured and guaranteed mortgages. The same thing is true of the yield on purchase-leaseback investments and conventional mortgage loans, both residential and commercial and industrial. What we are witnessing, therefore, is a tendency for the life insurance companies to redirect their funds somewhat away from the Government-insured and guaranteed mortgage market where yields are relatively much less responsive to market forces.

Available Mortgage Funds

How serious will this situation become? Actually, I do not believe that we shall witness any severe change in the overall availability of residential mortgage funds this year, or even in the availability of FHA and VA mortgage money. This is because at the beginning of the year most life insurance companies active in the FHA and VA mortgage market made decisions about the availability of funds which will be altered only gradually. We are hearing more and more today about soft spots in our business picture, particularly in the automobile and durable goods industries generally, and in retail sales. In the face of this I rather expect that the Federal Reserve will go slowly on further tightening of credit and there is some reason to expect that in coming weeks the situation may be eased somewhat. Moreover, it is highly significant that in this period we have not had any recurrence of Treasury action in the debt management field to tighten up the availability of long-term funds.

Conclusions

In conclusion, my views might be summarized in the following way. The most compelling motive directing the flow of life insurance investments is the desire to maximize investment yield. During the decade following World War II, the life insurance companies have made an enormous amount of money available for mortgages, both residential and commercial and industrial. The availability of these funds has sometimes varied because of changing conditions in the capital market and changing policies by Government agencies, particularly the Federal Reserve System and the U. S. Treasury. These changes have produced in turn changes in yield spreads with the result that frequently the yields on FHA and VA mortgages have not been competitive and the supply of funds in this market has been reduced.

We are witnessing today a great deal of criticism of the Federal Reserve for the credit restraint it has been exercising and for the effect this restraint is having upon residential construction and the mortgage market. Naturally, home builders desire to go on each year rising to new records in the vol-

ume of homes built. Naturally, mortgage bankers are delighted with the highest possible volume of mortgage lending. Basically, lending institutions such as life insurance companies are interested in having a heavy volume of mortgages offered them at attractive yields. It is common in Congressional circles to hear the complaint that not enough money is being made available to the mortgage market.

When we study the record of residential construction and the rise in the price of housing over the past decade, it is clear that at certain times too much money has gone into residential construction for our own good. We have too often seen commercial bank credit used for long-term mortgage financing on top of a full utilization of savings for financing homes, industry, and commerce—not to mention Federal and state Government. When all of our productive resources are utilized, the pouring in of new money can do little else than drive up prices. None of us wants to see a runaway boom and then a collapse in the residential construction field. We all desire a balanced and regular growth without inflationary excesses.

These are the questions which the Federal Reserve Board must consider. They are a highly able group of men and they have a most competent staff. I know of no group whose judgment is more trustworthy. We must admire their courage. I am sure that they will alter their policies promptly

if conditions dictate it. An independent and fully objective Federal Reserve Board is essential for the maintenance of financial and economic stability. They should have the full support of all of us.

NY Municipal Forum Elects Wells Pres.

H. Grady Wells, Jr., Andrews & Wells, Inc. has been elected President of the Municipal Forum of New York for the coming year, succeeding

Rollin C. Bush, First National City Bank of New York. Robert W. Fisher, Doremus & Company, was elected Vice-President; Alfred J. Bianchetti, Dean Witter & Co., Treasurer; and Albert F. Halback, B. J. Van Ingen & Co., Inc., Secretary. Philip M. Hiss, The First National Bank of Chicago; Townsend Wainwright, Wainwright & Ramsey, Inc.; George W. Bramhall, Bramhall, Falion & Co., Inc.; and Eugene A. Mintkeski, The Port of New York Authority, were elected to the Board of Governors.



Henry G. Wells, Jr.

(This Announcement is not an Offer)

To the Holders of Colombian Mortgage Bank Bonds

Agricultural Mortgage Bank

(Banco Agrícola Hipotecario)

- Guaranteed Twenty-Year 7% Sinking Fund Gold Bonds
Issue of 1926, Due April 1, 1946
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Issue of January, 1927, Due January 15, 1947
- Guaranteed Twenty-Year 6% Sinking Fund Gold Bonds
Issue of August, 1927, Due August 1, 1947
- Guaranteed Twenty-Year 6% Sinking Fund Gold Bonds
Issue of April, 1928, Due April 15, 1948

Bank of Colombia

(Banco de Colombia)

- Twenty-Year 7% Sinking Fund Gold Bonds of 1927
Dated April 1, 1927, Due April 1, 1947
- Twenty-Year 7% Sinking Fund Gold Bonds of 1928
Dated April 1, 1928, Due April 1, 1948

Mortgage Bank of Colombia

(Banco Hipotecario de Colombia)

- Twenty-Year 7% Sinking Fund Gold Bonds of 1926
Dated November 1, 1926, Due November 1, 1946
- Twenty-Year 7% Sinking Fund Gold Bonds of 1927
Dated February 1, 1927, Due February 1, 1947
- Twenty-Year 6½% Sinking Fund Gold Bonds of 1927
Dated October 1, 1927, Due October 1, 1947

Mortgage Bank of Bogota

(Banco Hipotecario de Bogota)

- Twenty-Year 7% Sinking Fund Gold Bonds
Issue of May, 1927, Due May 1, 1947
- Twenty-Year 7% Sinking Fund Gold Bonds
Issue of October, 1927, Due October 1, 1947

and
Convertible Certificates for 3% External Sinking Fund Dollar Bonds of the Republic of Colombia, Due October 1, 1970

NOTICE OF EXTENSION

The time within which the Offer, dated June 25, 1942, to exchange the above Bonds and the appurtenant coupons for Republic of Colombia, 3% External Sinking Fund Dollar Bonds, due October 1, 1970, may be accepted is hereby extended from July 1, 1956 to July 1, 1957.

The period for exchange of Convertible Certificates for 3% External Sinking Fund Dollar Bonds of the Republic due October 1, 1970 in multiples of \$500 principal amount has also been extended from January 1, 1957 to January 1, 1958.

Copies of the Offer may be obtained upon application to the Exchange Agent, The First National City Bank of New York, Corporate Trust Division, 2 Wall Street, New York 15, N. Y.

AGRICULTURAL MORTGAGE BANK

(Banco Agrícola Hipotecario)

By PEDRO NAVAS PARDO

(Gerente)

Dated, June 28, 1956.

Continued from first page

Pros and Cons of Variable Annuities Debated

annuity" differs from the conventional annuity in two fundamental respects:

(1) where the true annuity guarantees payment of a fixed number of dollars, the "variable annuity" would not guarantee payment of a fixed number of dollars but would pay only the value of a number of units which would fluctuate in value, and

(2) where funds paid into true annuities are invested principally in bonds and mortgages under statutory requirements and company investment policy designed to assure payment of guaranteed fixed dollar amounts, funds paid into "variable annuities" would be invested wholly or principally in common stocks with fluctuating values.

A "Variable Annuity" is a Security. The Purchaser of a "Variable Annuity" Acquires an Interest in a Diversified Fund of Common Stock. The Issuing Company Assumes No Obligation to Pay a Fixed Dollar Amount.

The fundamental facts are that a purchaser of a "variable annuity," purchases an interest in a diversified fund of common stocks, he is not guaranteed any fixed dollar payment, and he may obtain a profit or suffer a loss dependent upon whether the aggregate value and income of the common stocks in the diversified fund increase or decrease (after deducting selling expenses, administrative expenses and dividends on capital stock of the variable annuity company and making adjustments for experience under mortality tables).

The basic nature of the "variable annuity" contract is not changed (1) by selling it in combination (or as part of a package) with a true annuity or insurance contract which guarantees fixed dollar payments, (2) by providing that the risk of error in the mortality table, upon which is determined a number of units to be paid each year to a participant, would be assumed by the issuing company or (3) by providing that the investor could receive payment of the value of his units only over a period of years and could not obtain the cash value of this contract in a lump sum. In any of these cases the fundamental fact would still remain that the "variable annuity" contract is an interest in a diversified fund of common stocks and that the issuing company assumes no obligation to pay the investor a fixed dollar amount.

Protection of New Jersey Investors Requires Regulation of "Variable Annuities" as Securities under Federal and State Securities Laws.

In support of the conclusion that protection of New Jersey investors requires regulation of "variable annuities" as securities under Federal and State securities acts, and in response to contentions that investors will be adequately protected in regulation by a state insurance commission, we submit the following facts:

(1) "Variable annuities" are not "annuities" within the legal or generally understood meaning of the term annuity because an "annuity" is legally and generally understood to mean the payment of a certain sum of money at stated times for life or for a period of years. Likewise, "variable annuities" are not "insurance" within the legal or generally understood meaning of the term "insurance" because (a) "insurance" is generally understood to mean the payment of a certain sum of money and (b) any insurance risks in a "variable annuity" contract are incidental to the main investment features of the contract. Consequently, the sale of contracts bearing the word "annuity" by insurance companies will, upon the basis of legal and public understanding, lead most investors to assume that they are purchasing contracts which guarantee payment of fixed dollar amounts.

(2) Regulation of "variable annuities" by a state insurance commission would not afford the protection provided under Federal and State securities acts to purchasers of securities, because state insurance commissioners do not require that there be fully disclosed to purchasers the detailed information required to be disclosed in a prospectus under the Federal Securities Acts and the regulatory authority and experience of state insurance commissioners has been principally with traditional annuity contracts and insurance policies guaranteeing payment of fixed dollar principal amounts.

For example, purchasers of traditional annuity contracts and insurance policies have not been directly affected, insofar as the principal amount of their contracts and policies have been concerned, by selling commissions, salaries of officers and administrative expenses, because their contracts and policies have guaranteed a fixed dollar principal amount. However, the value of a unit in a "variable annuity," aside from fluctuations in its value resulting from investment experience, will be reduced by deductions for, among other things, selling commissions, salaries of officers, expenses of administration and, in some companies, payment of dividends to stockholders. Full disclosure of such selling commissions, details of other deductions from the value of units and other pertinent information—deemed essential for the public interest and the protection of investors under the Federal Securities Act of 1933 and certainly essential if an investor is to have adequate information in considering alternative types of equity investments—will be afforded to purchasers of "variable annuities" only if "variable annuities" are subject to regulation under the Federal Securities Act of 1933.

(3) The obvious doubt as to the desirability of authorizing the sale of "variable annuities" by insurance companies is reflected in the fact that bills to authorize sale of "variable annuities" by insurance companies were introduced in 1955 in the legislatures of Maryland, New Hampshire, New Jersey, New York and Texas, but the bills were not adopted in any of those states.

(4) In the District of Columbia, where present insurance laws permitted sale of "variable annuity" contracts, the Variable Annuity Life Insurance Company of America was organized in 1955; but replies to our inquiries to the insurance commission of each state in April of this year indicated that that company had not yet been authorized to do business by the insurance commission of any state. Furthermore, on June 19, 1956, the Securities and Exchange Commission filed a complaint in the District Court of the United States for the District of Columbia requesting an injunction against the sale of "variable annuity" contracts by V. A. L. I. C. until it complied with the Federal Securities Act of 1933 and the Federal Investment Company Act of 1940.

(5) The Variable Annuities Committee of the National Association of Securities Administrators (the national association of the administrators of the state securities acts) in November 1955, submitted the following report: "The Variable Annuities Committee of the National Association of Securities Administrators after giving careful consideration to the types of variable annuity plans that have been proposed has arrived at the following conclusions:

"(1) A variable annuity plan falls within the provisions of the definitions of a security, such as a profit-sharing agreement, an investment contract or any instrument commonly known as a security, found in the securities laws of the various states. (Emphasis supplied.)

"(4) The Committee is of the opinion that if the sale of variable annuities is to be permitted, the plans should be subject to the same degree of regulation under the states' securities laws and Federal laws that are now provided for the regulation of the sale of investment securities."

On April 18, 1956, the Insurance Commissioner of Connecticut and the Banking Commissioner of Connecticut (who administers the state securities act) filed a complaint in the Superior Court of

Hartford County to enjoin the proposed sale of "variable annuity" contracts by the American Life Insurance Association and to obtain a declaratory judgment determining whether such contracts are subject to the Securities Act of Connecticut.

(6) If a "variable annuity" were taxed as insurance, an investor in a "variable annuity" would obtain a considerable tax advantage over an investor who invests directly in common stocks or who purchases shares in a regulated investment company.

An investor in common stock or in the shares of a regulated investment company must pay a current tax on the income from such investments and on any realized capital gains; but the investor in a "variable annuity," if it is taxed as insurance, could permit both dividend income and capital gain to accumulate and compound tax-free until such time as the annuitant started to receive payments from the investment contract. While those who contend that "variable annuities" should be taxed as insurance may claim that there is a tax disadvantage in a "variable annuity" in that any increase in the value of the annuity over the cost thereof is taxable at the graduated ordinary income tax rate, it appears that the annuitant would presumably receive payments at a time when his other income is lower because of retirement and at a time when he would receive favorable tax treatment because of age and retirement so that the accumulated dividend income and capital gain income would probably be taxed at a much lower rate than income received during the earlier years of high income of the annuitant. Furthermore, the tremendous advantage would be in permitting "variable annuity" dividend and capital gain income to accumulate and compound tax-free until the time of receipt of payments.

This tax advantage aggravates the necessity for assurance that "variable annuities" will be regulated as other securities, in order to require that investors obtain full disclosure of the exact nature of what they are buying and other protection afforded by securities laws, before legislation is adopted authorizing the sale of such contracts, because this tax advantage would cause many investors to switch from direct common stock ownership or investment in regulated investment companies to investment in "variable annuity" contracts.

Officials of the Treasury Department of the United States have met with interested parties to consider the appropriate method of taxing "variable annuities." We understand that they are considering changes in the tax laws, not only to provide a method of taxing "variable annuities" which would be less discriminatory against other forms of investment, but to change the method of taxing other contracts issued by insurance companies so as to lessen tax discrimination against other forms of investment.

Conclusion and Recommendations

Recognizing that there may be changes in concepts within the insurance industry, as in other fields, and that there is strong opposition within the insurance industry to the sale of "variable annuities" by insurance companies because it would mark a departure from the generally understood meaning of annuities and insurance as connoting payment of a fixed dollar amount, we are not opposing the concept of a "variable annuity"; however, we submit that the facts outlined above demonstrate that the "variable annuity" contract is fundamentally a security, representing an interest in a diversified fund of common stocks, and that the

sale of such contracts should not be authorized unless (1) such contracts are subjected to the same regulatory requirements as other securities under Federal and State securities acts for the protection of investors and (2) such contracts are not given unfairly favorable tax advantages.

Since there is yet no assurance that "variable annuities" (1) will be regulated under Federal and State securities laws to afford to investors the necessary protection and (2) will be taxed so as to eliminate the unfair tax advantage over other forms of investment, although developments outlined above may bring about such regulation and taxation within a few years, we respectfully urge the Committee that the best interests of New Jersey investors will be served by not adopting Assembly Bills 450, 451, and 452.

By LOUIS W. DAWSON
President, Mutual Life Insurance Company of New York

There is a growing public recognition of the fact that a reasonable amount of equity investments has a sound place in most investment programs.

Hence, there is a growing public demand for some method that will combine the benefits of equity investment with the annuity principle. I doubt that this demand will disappear simply because we ignore it. When an individual arranges for an annuity or for an income settlement on his life insurance policy, I think he is seeking security in the form of purchasing power for himself or his family. If fixed-dollar annuities or income settlements will supply that, then fixed dollars are what he wants. But if fixed dollars will not adequately provide that purchasing power, then he wants something else. If variable annuities would help to maintain or enhance purchasing power, then they would seem to have a logical place in our operations. We have a right—in fact, a duty—to engage in any activity that will forward the security of our policyholders and their families.

The use of equities in conservative long-term investment programs is not a new or untried conception. Many property insurance companies have been doing it successfully for years. So have endowment funds, charitable trusts and investments trusts of various types. The laws of many States permit the operation of personal trust funds under the "prudent man" principle that allows for holding of equities; and funds placed with trust companies are generally permitting more leeway in this matter of stock holdings. Many of the trusted pension plans of corporations now provide for inclusion of equities. Regulatory authorities and the general public are giving increasing acceptance to equities. Entirely aside from the effects of possible further inflation, the investing public increasingly wants a share in the growth of the American economy.

There is strong evidence that fixed-income annuities, based upon necessarily conservative interest assumptions, have failed to fulfill the public's expectations. This has resulted in a strong and increasing public demand for some type of annuity that will include equities. Someone is bound to meet this demand. So the fundamental question is whether this demand should be met by the life insurance business, or by others. We live in what might well be



Louis W. Dawson

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termed an "age of improvement." Like every other business, the life insurance business has a public duty to improve its products and services in every possible way, and to conduct reasonable experiments with that end in view.

In the life insurance business today, we are offering many products and services that seemed new and radical when they were first introduced. And we have given up many things that were tried and found wanting. Our business has always been willing to experiment and innovate in any way that offered a reasonable chance to benefit our policyholders and their families. I think we must maintain that progressive and open-minded attitude, if we are to serve coming generations as well as we have served past generations.

I feel the life insurance business should accept the challenge and endeavor to do the job. I do not think the so-called Variable Annuity is a cure-all for the problems of inflation or many other investment questions. But I feel that, on balance, the possible advantages of the Variable Annuity, both to the public and our business, outweigh the possible disadvantages and risks. That is particularly true if proper safeguards and limitations are included in the enabling legislation.

I believe that, because of their conservative approach to investment questions, life companies are likely to do such a job more soundly than other organizations might. If the Variable Annuity is sold by life companies that have strong but conservative sales forces, in combination with their other products and services, we are less likely to have any overselling of the equity idea than would be the case if it is sold by others as their exclusive product. I know of no other institution equipped to combine the assumption of the annuity mortality risk with the required investment principles.

Development and sale of Variable Annuities through life companies would also assure the public of the benefits and protection of strong regulation by State Insurance Departments. An experiment conducted by the strong, conservative life companies that are domiciled in New Jersey, and regulated by the able Insurance Department that exists in this State, would certainly be in the public interest.

For these reasons, I believe we have an obligation to apply all our knowledge and wisdom to the creation of sound legislation, containing all the restrictions, qualifications and limitations that may be needed to surround Variable Annuities with proper safeguards. The proposed bills in New Jersey seem to meet all these requirements.

There would be no need for the whole life insurance industry to plunge headlong into Variable Annuities. We can work out this whole question by gradual development, on an experimental basis. Only those life companies that are interested need enter the field. Thus, experience can be accumulated without committing the entire industry at the outset. Moreover, no policyholder or beneficiary will be subjected to any risk he doesn't want. No one has to buy Variable Annuities even if they are offered. And we will continue to offer fixed-dollar annuities and income settlements, as we do now.

In the final analysis, the life or death of the Variable Annuity will be decided by the American public. If it fills a real need and is soundly conceived, it will continue to develop, in spite of all efforts to discourage it. On the other hand, if it fills no great need and is not soundly conceived, it will soon disappear from the scene. If we will help to guide the movement soundly, test it fairly and let nature take its

course, I think we will find the right answer.

I would like to file with your Committee a statement which I issued to my Company's Managers on this subject last November. It is entitled "A Calm View of Variable Annuities."

By FREDERIC W. ECKER
President, Metropolitan Life Insurance Company

I do not like to be in the position of opposing the views set forth by one of our country's outstanding life insurance companies, and normally I would not appear outside of New York to oppose a permissive or enabling legislation sought by another company. However, we feel so strongly that the proposal to permit the issuance of so-called



FREDERIC W. ECKER

variable annuities by life insurance companies, contained in New Jersey Assembly Bills 450, 451 and 452, would be so detrimental to the whole life insurance business we felt that we would be neglectful of our responsibilities if we failed to set forth for your consideration the aspects of this matter which cause us such concern.

I would like, if I may, first to read a statement, and then endeavor to answer any questions on the subject which you gentlemen may care to ask.

I shall not undertake to discuss the technical provisions of these bills, nor their relative merits or weaknesses, but propose to confine my remarks to a discussion of what I believe to be the basic question involved—that is, whether or not it is in the public interest for life insurance companies to be permitted to sell these variable contracts.

A True Annuity and a Variable Annuity Contrasted

First, so that we may all understand the difference, I would like to explain that a true annuity is a fixed dollar annuity. This means that the amount of money which will be paid to the holder thereof after he retires is fixed and guaranteed at the time he purchases the annuity. The appropriate premium is paid, usually periodically, during his working years. The money derived from the sale of this true annuity is then invested by the issuing insurance company conservatively within the framework of the statutory safeguards provided by law. The insurance company guarantees that when annuity payments begin, the annuitant will receive periodically a specified amount of money, no matter whether the economy is booming or in the depths of a depression. If the insurance company earns more than anticipated, the annuitant may receive more than the specified amount, or his premiums may be reduced by dividends, but in no event will the amount of the benefit be less than promised. Inherent in such a contract is the guarantee of future payments, and this guarantee is the cornerstone upon which the life insurance business rests today.

On the other hand, and bearing only a superficial resemblance to the true annuity, is the so-called variable annuity. Like the true annuity, the individual presumably will pay the premiums during his working years, and on retirement the issuing company undertakes to make periodic payments. There, however, the similarity ends. Under this type of contract the premiums received are to be invested in equity securities, which to all intents and

purposes means common stocks. The issuing company makes no commitment as to any dollar amount that will be paid to the annuitant upon retirement. It promises only that he will receive a periodic income based upon his pro rata share of the accumulated income and the then market value of this common stock fund. The amount which the annuitant will receive each month depends entirely on the level of the stock market at the time. In the last analysis, the purchase of a variable annuity is nothing more or less than an investment in a common stock pool, with all of the attendant risks inherent in equity ownership, which means, among other things, that the amount of the payments is subject at times to wide fluctuations. It completely ignores the guarantees traditionally inherent in a true annuity.

Public Confidence

The life insurance business has earned, and today enjoys, an unrivalled reputation for financial integrity. The contracts issued by life insurance companies are looked upon as something safe and certain. Despite depressions, wars and panics, the life insurance companies have provided promised financial security for millions of individuals. Even during the worst depression this country has ever experienced there was, practically speaking, no loss to life insurance policyholders or their beneficiaries.

This public confidence and good will, which is the greatest asset the life insurance companies have, has not been easily won and should not lightly be put in jeopardy.

Unlikely That Public Would Understand Risk Inherent in Variable Annuity

As I stated previously, contracts issued by life insurance companies are looked upon as something safe and certain beyond any question. It is now proposed that life insurance companies be permitted to offer a contract which represents a complete departure from everything which the life insurance business has stood for in the past.

Traditionally, under every contract which has been issued by a life insurance company, the company has assumed the risk involved. Under these proposed variable annuity contracts the risk is essentially transferred to the purchaser, since the insurance company agrees only to pay the annuitant what his share of the underlying common stock fund will produce at any particular time. There is absolutely no guarantee that the annuitant will receive any particular amount of money.

The area for misunderstanding on the part of the public is very great. When an individual purchases common stocks or shares in a mutual fund, he knows automatically that there is a risk involved. I believe that the vast majority of the same individuals who might purchase a variable annuity contract from a life insurance company would feel that they were purchasing pretty much the same type of safe and certain protection as they have been accustomed to purchase from life insurance companies in the past. It seems most unlikely that the public, accustomed for years to life insurance contracts providing for guaranteed benefits, could be expected to understand and perceive the fundamental departures from the guaranteed insurance contract that would be offered by these variable annuity contracts. This would be especially true where, as is contemplated by these bills, the variable annuity contracts would be offered by the same insurance companies that historically have sold only guaranteed contracts, and pre-

sumably would be sold by the same agents.

In spite of the efforts of an able and honest field force to explain the variable annuity contract, we doubt very much whether any sizable proportion of the buying public would understand the risks involved. You cannot change the nature of common stocks. There inevitably will be in the future, as there has been in the past, wide downswings as well as upswings.

There have been a number of instances in the last 50 years when substantial drops have occurred in the stock market. As measured by the Dow-Jones Industrial Averages, these drops have ranged up to 90%, and at least six times the drop has been 40% or more. It can hardly be expected that these instances will be called to the attention of the prospective purchasers of variable annuity contracts as illustrations of what has occurred in the past and what may occur in the future. One booklet I have seen, which discusses the variable annuity contract, gives the illustration of monthly fluctuations of only 1 and 2%. That's not what we're talking about. It's the possible substantial drop that gives cause for concern. It is unreasonable to expect that one endeavoring to sell such a contract would call attention to the more disastrous possibilities. It is true that these substantial drops of 40% or more, of which I am speaking, occurred before World War II. Since then, with the exception of 1946, the drops have been relatively minor. I wish that I might have confidence that history will not repeat itself in this regard. For my part, though, I desire to see a testing period somewhat longer than a 10 year postwar boom. It seems to me there are bound to be wide fluctuations, and when the stock market drops, those who are dependent upon variable income contracts for their support are certain to be hurt.

Dollar Averaging Theory

Proponents of the variable annuity concept seem confident that the problem of market fluctuations will be offset through application of the so-called dollar averaging theory. By that is meant that an individual would make periodic premium payments toward his variable income contract over a period of many years. The premiums would in turn be invested periodically in common stock without regard to the price of the stock at any one time. As a result, over a long period of time, the stock will have been purchased at a dollar average, higher than the stock market lows and lower than the stock market highs, and by this process the risks removed or at least greatly reduced.

Even were this true theoretically (and that depends on timing), this theory has two practical weaknesses. In the first place, if a depression should occur in the period when the individual is in the process of making his premium payments, there would no doubt be many individuals who would not continue their payments. Yet this would be just the time when, to make the dollar averaging theory work, it would be most important to continue premium payments, for presumably during this depression period common stock prices would be low, and a larger number of units would be purchased by the same premium dollars. Many individuals would not continue their payments during such a period simply because they would just not have the money available to pay the premiums. Also, human nature being what it is, during such periods people tend to lose confidence and some would question the desirability of putting money

into common stocks while they continued to fall in price.

The second difficulty is during the retirement period. Most of us, unfortunately, live up to our income during our active years, and certainly it is the rare case when one on retirement has any substantial margin between income and expenditures. Today at age 65 the mortality tables indicate that annuitants have a life expectancy on the average of about 15 years. During such span it is reasonable to assume, based on past experience, that there would be one or more periods of sharp decline in the stock market. This could mean, for example, that a person depending on a variable annuity contract might receive \$100 per month one year, and in a subsequent year when the market was depressed, might well receive \$80 or \$60. This, of course, could be disastrous.

Where to Draw the Line

If the variable income concept is sound for annuities, a natural question arises as to why it should not be sound for other forms of life insurance protection. Why should we not have variable life insurance policies or variable endowment policies? It would seem that the same reasoning which is used to justify the variable annuity could be used to justify the variable life insurance policy.

As a matter of fact, the proponents of the variable annuity contract have publicly stated that settlement options serve the same purpose as annuities, and are a proper and desirable use of the variable annuity idea. If applied to settlement options, this could mean that a widow might be persuaded to apply the proceeds of her husband's life insurance, in a lump sum, to a variable annuity. If the market should subsequently drop, you can imagine what a disaster it would be for that widow. I ask you, should we make it possible for that to happen? Furthermore, what happens to the dollar averaging theory in such a case? Even if the life policy proceeds were applied over a period of two or three years, it would seem that such benefit as the dollar averaging theory might have, would be lost.

Furthermore, it is interesting to note that the American Life Insurance Association (a fraternal) in Bridgeport, Conn., has already announced its intention of issuing variable endowment contracts. It has not done so up to the present because the Connecticut Insurance Department is opposing it. But certainly I can think of nothing more similar to participation in a mutual fund than a variable endowment contract. I am not saying that these bills would make the issuance of such a contract possible. I am only pointing out that if New Jersey should lead the way in recognizing the variable contract principle, there is no telling where it may end.

Is Inflation Inevitable?

The variable annuity theory is based on the concept that there will be more or less of a continuous rise in the future level of prices. It represents an attempt to solve for annuitants the problems arising from a decline in the purchasing power of the dollar. The variable annuity is advanced as a device whereby an individual can hedge against this future "inevitable" inflation. The proponents conclude that a variable annuity will serve an annuitant better than a fixed dollar annuity in safeguarding the purchasing power of retirement income.

This places an insurance company and its agents in a curious dilemma, for if it urges the purchase of a variable annuity as a hedge against inevitable future inflation, it thereby demonstrates that it no longer has faith in the value of its insurance product of-

Continued on page 32

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Pros and Cons of Variable Annuities Debated

fering guaranteed dollars. If the insurance company has recognized inflation as inevitable, why should a policyholder buy more life insurance or, indeed, retain what he has? As Dr. Heinz Luedicke, Editor of The Journal of Commerce, has well stated it:

"Any insurance company that goes into what actually is the mutual fund business... may quickly find out that it is destroying the very foundation of its own business. It may not be aware of this right away, but it will in effect advertise the fact that it no longer believes in its own product of guaranteed dollar contracts."

The people of the United States in general, and the 100,000,000 life insurance policyholders in particular, have a vital stake in a sound and stable economy. It is the people of limited means who are hurt most by inflation, and it is these same people who make up the bulk of life insurance policyholders. It is the moral obligation of the life insurance companies to be in the van of the fight against inflation, rather than to capitulate and begin to offer contracts of variable income as a hedge against inflation.

The principal business of life insurance companies today is the sale of life insurance protection. Our ability to sell this protection in the future depends on the continued confidence of the public in our product, which in turn depends on the soundness of our economy. The insurance industry's answer to the problem of rising prices is to launch a fight against inflation rather than inaugurating devices based on the acceptance of inflation as being inevitable.

Furthermore, how is the conscientious life underwriter, who has been trained to sell security, and who has at heart the best interests of his client, going to sell these variable contracts which may or may not pay off as expected? How can he sell security on the one hand and at the same time be prepared to sell what in effect amounts to speculation on the other? This is truly carrying water on both shoulders. Let the life insurance companies and their agents sell guaranteed security, as they always have, and let others sell shares in these common stock funds. I am not opposed to investment in equities provided one first has an adequate amount of life insurance to protect one's dependents. I simply say that life insurance companies are not the proper vehicle for such investment.

Now having said this, I would like to make it abundantly clear for the record that I do not for one moment subscribe to the theory of inevitable inflation. If you look back over the years, you will find that inflation has always come in times of major war and immediately following war, but during other periods the economy has been relatively stable. I believe that those who think in terms of inevitable inflation are being psychologically affected by the period through which we have just been passing—and I cannot but be reminded of those who held the view in the late 1920's that we were then in a New Era.

Federal Problems

The entry of the life insurance companies into the variable annuity business will carry with it other serious problems at the Federal level. I believe we would all agree that the continued regulation of the life insurance business by the several states is in the public interest, and that any degree

of regulation by the Federal Government would be unfortunate. Yet, let's consider some of the things that might happen if the life insurance companies enter the variable annuity field.

T. N. E. C. — I think it is safe to say that, at present, the aggregate common stock holdings of the life insurance business are negligible. However, if the companies were to aggressively sell these variable annuity contracts, it is quite likely that their common stock holdings would increase substantially. Ownership of common stocks means ownership in the company, the stock of which is purchased. This carries with it the right to vote, and consequently the right to have a voice in management. The holding of a sufficient quantity of the common stock of any company, which need not be a large percentage of the total, carries with it an element of control. I do not believe it to be in the public interest for life insurance companies to control industry, or even to put themselves in the position of being accused of such control. Many of you will remember the hearings conducted by the Temporary National Economic Committee in 1939-40, on the concentration of economic power. During those hearings the question was raised as to whether the life insurance business, because of its large accumulation of assets, exercised control over industry. This question was readily disposed of when it was shown that, practically speaking, the life insurance companies owned no common stock. The answer might well have been different if the facts were otherwise, and a different answer might well have had unfortunate consequences for the life insurance business.

S. E. C.—On Tuesday last, the Securities and Exchange Commission announced its findings, apparently unanimous, that variable annuity contracts are, in effect, securities and, therefore, that their sale is subject to its requirements. It seems to me that, in the face of what has now taken place, for a life insurance company to issue a variable annuity contract is practically asking for Federal supervision. If the Securities and Exchange Commission once undertakes to regulate any phase of a life company's business, there is no telling where it may end.

Conclusion

With the point of view that a life insurance company should be progressive and willing to experiment, I thoroughly agree. I sincerely believe that the companies, by and large, are alert to changing conditions. They do experiment, invest in new fields and develop new plans to meet changing needs. However, some forms of experimentation can be too dangerous and too potentially detrimental to the public and the business to be undertaken.

On this point I would like to stress the words of the late Chief Justice Hughes that life insurance "is practically the highest form of trusteeship." I do not believe that any substantial portion of such funds should be used for the purchase of common stocks. This matter, in a somewhat different form, has been advocated on previous occasions. It seems that whenever there is a prolonged bull market some are carried away with the advantages of common stock purchases and contend that life insurance companies should buy more common stocks. When the market goes the other way, nothing is heard on the subject.

The variable annuity idea is

theoretically an interesting proposal, but one which has many dangers of a very practical nature. The stock market is not a one-way street. When a substantial drop occurs, as has repeatedly happened in the past and will happen again in the future, people will be hurt, and surely the public's confidence in the life insurance companies, built up over many years of industrious and wise management, might well be severely shaken. I know of no business which has rendered a greater service to the people of this country, and I cannot willingly see its reputation put in jeopardy or people misled to their detriment.

For all these reasons, I believe it not to be in the public interest for the life insurance companies to be permitted to sell variable annuities, and that New Jersey Assembly Bills 450, 451 and 452 should be defeated.

Legislation of this general type has been introduced in the legislatures of Maryland, New Hampshire, New York and Texas, and has been rejected by all as not being in the public interest. I trust that you gentlemen will not approve putting this wonderful insurance business of ours into the business of selling to the public what are in effect participations in common stock pools, and that New Jersey will not lead the way in putting its stamp of approval on legislation of this character.

Incidentally, I have reason to believe that these views are widely shared by life insurance company executives throughout the country.

By G. KEITH FUNSTON President of the New York Stock Exchange

I appreciate the invitation of the Chairman to appear before this Committee on behalf of the members and member firms of the Exchange who reside or do business in New Jersey.

For many years the New York Stock Exchange has advocated broader share ownership in America. The Exchange believes that broader public participation in the ownership of American business—particularly through direct stock ownership by individuals, but also indirectly through financial institutions—is in the long-run interest of individual investors, of the securities industry, and of our nation's economy. The Exchange welcomes the entrance into this endeavor of any and all persons or institutions which can make a sound contribution to the achievement of the broad shareownership goal.

The Exchange's endorsement of broader shareownership does not mean, however, that it believes in selling common stock to all persons indiscriminately. In its public statements and advertisements, the Stock Exchange stresses the risks as well as the rewards of stock ownership and points to the necessity for the individual to have adequate life insurance and emergency cash reserves before he considers stock ownership. We advocate full disclosure of all corporate affairs so that the potential investor will have available the facts on which to base a sound investment judgment and we urge "investigate before you invest."

The Exchange regulates carefully the methods used by our member firms in soliciting business from the general public. The advertising of our members and member firms must be approved in advance by the Exchange. Im-

proper sales methods are banned. The Exchange also insists that the salesmen of its members are properly trained and supervised in the sale of securities.

The average person regards insurance as a guarantee by an insurance company that fixed payments will be made under certain conditions. When he purchases an annuity he generally expects to get back at least the amount of money he has paid in premiums. In the case of a variable annuity, there would be no guarantee. All of this risk of a stock market decline is assumed by the policyholder, who may find that he will get back less than he put in. I am fearful that if this happens, he will blame the stock market and not the insurance company, which may not have properly described what it is selling because it undoubtedly will have difficulty in training salesmen to sell properly both insurance and securities.

Provisions of the Bills

Assembly Bill 450 goes far beyond the issuance of so-called "variable annuities." This bill would authorize insurance companies to issue "contracts on a variable basis." This means—and I quote from the bill—"any contract issued by an insurance company providing for the dollar amount of benefits... to vary so as to reflect investment results of any segregated portfolio of investments... in which amounts received in connection with any such contracts shall have been placed."

This extremely broad language would appear to include all types of contracts. Under such an authority an insurance company could presumably provide for a life insurance settlement option under which a widow might select a variable annuity contract which would result in placing the proceeds of her husband's life insurance in a common stock fund. Such broad authority would apparently permit the issuance of some forms of life insurance itself on a variable basis. Under variable life insurance the amount of money left to your family would depend upon the level of the stock market at the time of one's death. Imagine the confusion and possible hardship which might result from such a situation—a situation which this legislation would apparently permit.

Essentially, these "variable contract" bills would permit New Jersey insurance companies to sell contracts which would give the owner an undivided interest in a diversified holding of common stocks. The purchaser of such a contract would bear all the risk of market fluctuations and income yield. To call such contracts "variable annuities" cannot, in our opinion, change their basic character as contracts which represent an interest in a common stock investment portfolio.

To permit the sale of common stock investment contracts in a form which would confuse and mislead the public as to the nature of their purchase would compound the risks inherent in common stock ownership. It is my sincere conviction that these bills would do exactly that—because they would permit the sale of common stock investment contracts to the public in the guise of insurance.

Variable Annuities Are Securities

There appears to be general agreement on the part of all except the sponsors of this legislation that these bills would permit an insurance company to sell securities to the public. Representatives from every field in the securities industry, as well as insurance industry experts, have gone on record and will testify before you today that variable annuities are securities.

The Securities Commissioners of the various States, through their association—the National Association of Securities Administrators—have recognized "the basic similarity of the variable annuity plans to the sale of securities."

And, just three days ago, the Securities and Exchange Commission declared, in connection with contracts issued by the Variable Annuity Life Insurance Company of America, that: "The... contract constitutes an investment contract... within the definition of the term 'security' contained in the Securities Act of 1933." In support of this conclusion the Commission pointed out that: "Under its 'variable annuity' contracts, VALIC is not obligated to pay a fixed sum periodically as are issuers of conventional annuities. Under the contracts issued by VALIC, periodic sums varying in amount would be payable depending upon the value of an underlying fund invested in common stocks and other equity type investments."

The Commission is seeking a court injunction to restrain the sale of variable annuities until the issuing company has complied not only with the registration requirements of the Securities Act of 1933, but also with the Investment Company Act of 1940, because of its conclusion that a company issuing variable annuities is "engaged in the business of investing, reinvesting and trading in securities within the definition of an 'investment company' contained in the Investment Company Act of 1940."

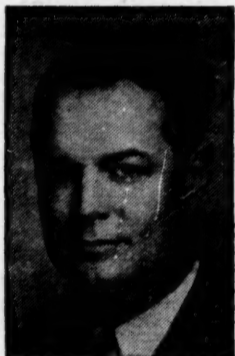
In this action the question of whether Federal securities regulation applies to the sale of variable annuities has been brought squarely before the courts. This has occurred since the passage of these bills by the Assembly. While this issue is pending in the Federal courts I believe that it would be a public disservice for this Legislature to enact these bills. Their passage would raise problems of a national scope and significance—for they do not limit the sale of variable contracts to the New Jersey life insurance company sponsoring this legislation. They would permit out-of-state insurance companies to sell such contracts to New Jersey residents and would also permit any New Jersey life insurance company—including companies which might subsequently be organized expressly for that purpose—to sell variable contracts in many other States, without the express consent of the Legislatures of those States and directly in conflict with the position taken by the Securities Administrators of those States through their Association.

No State specifically permits the sale of variable annuities or of other variable insurance contracts. On the contrary, bills to permit the sale of such contracts have been rejected by the Legislatures of four States in the past few years.

Securities Regulation Essential

The Stock Exchange believes that the regulation by governmental agencies of the issuance and sale of securities is in the public interest and also in the interest of the securities industry itself. In asking that the same rules apply whether a security is issued and sold by the securities industry or by an insurance company, we are going no further than we have in asking that regulation of the securities industry itself be extended to include some aspects of the securities business not now fully covered by regulation. If common stock investments—with all the risks involved—are offered without securities regulation, we fear that the results will injure not only the public but also the entire securities industry.

I would like also to comment



G. Keith Funston

on the statement made by the proponents of these bills that the insurance industry is the most heavily regulated industry in the country and that no additional regulation would be needed even though insurance companies were permitted to issue and sell securities through the medium of variable annuities. The question of whether the insurance industry, the securities industry, or the railroad industry is the most regulated is besides the point. Even assuming that the railroad industry is the most regulated, I would not expect you to agree that this would qualify a railroad company to sell insurance without complying with the insurance laws, or to go into the securities business without complying with the securities laws. It is worth noting, furthermore, that Congress, despite the fact of State regulation of life insurance companies, did not exempt the securities issued by life insurance companies from the registration provisions of the Securities Act of 1933.

The difference between insurance regulation and securities regulation is highlighted by the fact that the Superintendent of Insurance of the District of Columbia approved the sale of variable annuities by the Variable Annuity Life Insurance Company of America. Presumably, his decision was based on the company's compliance with all of the applicable insurance laws. Nonetheless, the Securities and Exchange Commission, after months of study, has concluded that compliance with insurance laws is not enough. A variable annuity, according to the SEC, is a non-exempt security and must be regulated as such.

This action by the Commission points up the fact that insurance regulation is directed primarily to the financial affairs of the company to assure, insofar as possible, its ability to meet its guarantees, while securities regulation is designed primarily to provide for full disclosure to the investor and to protect the public at the point of sale from false or misleading information.

The question raised by these bills is not whether insurance companies are adequately regulated for purposes of selling insurance. The question is whether they should be permitted to engage in the securities business without submitting to the Federal and State regulation which has been developed over the years to protect the public in the sale of securities. These protections which should be applied to the sale of variable annuities might well include:

- (1) The use of a prospectus in the sale of variable annuities.
- (2) The application of the same standards with regard to sales literature and advertising used in the sale of variable annuities as apply to the sale of securities.
- (3) Limitations on permissible investments by companies selling variable annuity contracts.
- (4) Protection of the public against fraud in the sale of variable annuities.

Tax Shelter

Another facet of this legislation which has implications that go far beyond the borders of this State arises from the significant tax shelter which investment in variable annuities would provide under present tax laws when compared with direct investment by individuals in common stock. The Federal tax law applicable to 1955 income of life insurance companies is based on a formula estimated to result in an effective tax rate of 7.8% on net investment income from dividends,

with no tax on capital gains. This contrasts sharply with personal tax rates on dividend income, ranging from 16% to 87%, when an individual invests directly in common stock. In addition, of course, the individual must pay the capital gains tax of up to 25% of realized appreciation from his common stock investments. The tax shelter which would be provided to an individual who chose to invest in common stocks through the variable annuity device rather than by direct stock investment is readily apparent.

The stimulus afforded by such a tax shelter might well result in changing the whole character of both insurance and stock ownership. Insurance, instead of being a means of spreading risk, might become a vehicle for avoiding taxes on common stock investments. Common stock investment, instead of being a means of profitably employing the savings of individuals, might become concentrated in insurance companies—with results that would change our whole concept of a corporate democracy based on individual stock ownership of our productive enterprises.

The favorable tax treatment afforded to the life insurance industry is founded on the premise that its main purpose is to meet its guaranteed obligations and not to seek to obtain for its policyholders profits arising out of fluctuating securities prices. For the life insurance industry to attempt to extend this tax shelter to variable annuities would distort our tax structure severely. It might even spark Congressional action to reduce or remove the advantageous tax treatment of all life insurance companies. Such a development would, of course, be to the disadvantage of the 100 million people who presently own life insurance.

Conclusion

In light of the serious problems of a national character which are raised by this legislation, it is clear that these bills represent far more than a mere request to write a slightly different form of insurance policy. They constitute a request to permit insurance companies to sell securities to the public under the label of insurance without the safeguards established for the protection of the public in the sale of securities and under a tax shelter intended for insurance. It would therefore appear that the really basic question is—"Is it in the public interest to permit insurance companies to sell securities?"

In my opinion, there can be only one answer—Insurance companies should not be permitted to sell common stock investment contracts to the public regardless of whether these contracts are called "variable annuities" or masquerade under some equally attractive but misleading label.

To summarize our position, the New York Stock Exchange believes:

- (1) That variable annuities are securities.
- (2) That, as securities, their issuance and sale should be subject to the same regulation and tax treatment as apply to securities.
- (3) That the sale of variable annuities on any basis should not be undertaken by companies which also sell life insurance because that would result, first, in confusion in the public mind as to the product being sold and the type and degree of protection being provided, and, second, in injury to the public, to the securities industry, and, in my opinion, to the life insurance industry itself.

By HUGH W. LONG

President, Hugh W. Long & Co., Inc., Elizabeth, N. J.

I am a member of the Executive Committee of the National Association of Investment Companies and of the Association's Open-End Investment Company Committee. It is on behalf of this Committee and the companies it represents that I am speaking today. These 126 companies have combined assets of more than \$8 billion which are owned by more than 2 million men, women and institutional investors located throughout the United States.

I should like to outline in specific terms some of our reasons for opposing these bills. I do not intend to outline all our reasons for urging the New Jersey Senate to reject these bills. Many of our reasons have already been documented by other witnesses; others may be presented by spokesmen who will follow me. The points of opposition to which I shall address myself will demonstrate to you, I believe, how defective these bills are in failing to provide essential protection to investors not only in New Jersey, but throughout the United States.

The open-end investment companies have, as you know, consistently opposed these bills this year, just as we opposed their predecessors in 1955. Last year I was one of the many witnesses who appeared before the Assembly Business Affairs Committee to speak against the bills then under consideration. Our views have not changed since then because the superficial changes in this year's bills do nothing, in our judgment, to respond to the objections we voiced last year.

Similar to Mutual Funds

In communications to you, the proponents of this legislation have argued that it is fear of competition which motivates our opposition. Certainly competition—unfair competition—is an element, and an important one, in our opposition to these bills. We look at these bills—our lawyers examine them, consulting actuaries examine them—and we do not see a form of annuity or a form of insurance. We see a form of common stock investment virtually undistinguishable from the open-end investment company, a form of investment in which we have pioneered and which, through our efforts and performance, and under Federal and state securities regulation, has grown substantially both in size and in acceptance by thrift-minded people in America.

We believe we are competent to evaluate the type of business proposed in these bills, and have a public responsibility to do so, because we have had more experience in this type of business than anyone, including the proponents of the legislation.

A mutual fund is a medium that permits an individual to acquire an interest in a widely diversified and carefully selected portfolio of securities and to obtain, regardless of the amount of his investment, the benefits of full-time professional management.

The variable contract scheme outlined in these bills would permit an individual to acquire an interest in a portfolio of equity securities, and to obtain the benefits of full-time professional investment management. In basic principle, then, there is no real difference between a mutual fund and the so-called variable annuity. May I carry the comparison fur-

ther and call your attention to technical differences.

Technical Differences

There are three such differences. First, the variable annuity investor can elect a pay-back plan that involves some life contingency element. Much less than 50% of individual annuities actually involve a significant element of mortality, apparently. Most annuities, I am told, involve guaranteed minimum returns to the annuitant or, if he dies, to his beneficiary. The more substantial the guarantee, the more identical an annuity is to an investment plan, and the less significant life contingencies become. The general use of guarantees in paying out annuities makes the life contingency difference between variable annuities and mutual funds superficial, in our judgment.

A second difference between a mutual fund and the proposed variable annuity is in taxation. Mr. Funston has outlined for you the tax avoidance which is inherent in the proposed legislation. Let me add to his statement that taxation of the mutual fund investor is designed to put him in precisely the same tax position he would occupy if he owned stocks directly rather than through the intermediary of an investment company. This conduit theory of taxation is certainly not discriminatory nor favorable since all it does is to put the mutual fund investor in the same position as any other investor. The variable contract would, as Mr. Funston so clearly indicates, create a specially favored class of investors from the standpoint of taxes.

The tax shelter which these bills seek to establish for variable annuity investors would permit them to avoid or reduce through deferment, their equitable share of the public tax burden and create a significant difference—a competitively unfair difference—between variable annuities and any other form of common stock investment.

The third area of difference between a mutual fund and the proposed variable contract business is in regulation. I should like to dwell on this difference at some length, if I may, in an effort to cut through the smokescreen that has enveloped the discussion about regulation, and to point to some specific differences between Federal and state regulation of the securities business and the regulation these bills contemplate.

I personally have been in the investment business for 36 years, and in the investment company field since 1928. The first mutual fund started to issue shares in 1924; so you can see that I have been in this business for a good part of its entire history. Some of my colleagues here today have also had long experience in the investment company business.

Lived Through Stock Market Cycles

We've lived through ups and downs in the stock market price level; we've lived through the mistakes that occurred in our business in its early years, just as mistakes occur in every business, it seems, during the formative period. We've learned from actual experience how our business must be conducted, how common stock investment programs must be sold, and how they must not be sold, if the public interest is to be protected. We've learned that our interest and the public interest are one and the same.

We cooperated with the Securities and Exchange Commission in drafting the Investment Company Act of 1940 and have worked closely with the SEC ever since in its efforts to administer and implement this basic public-interest legislation. And we cooperated with this federal agency again in 1949 and 1950 in drawing up the Statement of Policy, a code which defines in most specific terms the language and format of invest-

ment company advertising, sales literature, reports, prospectuses and sales presentations. We believe strongly that this cooperative enterprise with the SEC has been in the public interest and hence, in our own interest. We believe that the result is a system of regulation which assures the public the highest level of business conduct.

We are anxious to keep the opportunists out of our business, recognizing that unethical, improper or dishonest conduct by any investment company, regardless of what it might be called, would inevitably be harmful to the public confidence and approval that we as individual companies and as an industry have earned.

Can it be, we ask ourselves, that all it takes to by-pass the regulation and the high standards so essential to protect the public is enactment of three New Jersey bills to permit the establishment of new investment companies under the name of insurance?

Certainly the State of New Jersey would never permit a man to open a public establishment with a license to operate a tea room when, in fact, the only merchandise he intended to sell was alcoholic. This would be an interesting way to avoid the regulation of the State's liquor authority and to circumvent the normal liquor license fees and taxes. We find it hard to imagine your approving these bills which would permit an insurance company to call an investment in common stocks "insurance" or an "annuity" and thereby avoid the taxation which normally applies to securities investors, and the regulation which both the Federal government and state governments have found essential to the protection of investors.

Bills Termed Defective

These are defective bills, gentlemen. That they threaten the public interest must be obvious from the fact that all elements of the American securities business are represented here today, fulfilling their responsibilities as citizens who recognize the abuses these bills invite.

Should you feel that the securities people base their opposition only on competitive considerations, as the proponents of the bills have suggested, may I ask you to consider that the bills violate seriously many of the basic recommendations of the Variable Annuity Committee of the National Association of Insurance Commissioners, a Committee on which New Jersey Commissioner Howell served. (Would it not be desirable to learn why many of that Committee's recommendations, to which Mr. Howell apparently subscribed, are not embodied in these bills which he approves?) May I also ask you to consider that the National Association of Securities Administrators has adopted a strong position in opposition to this type of legislation. Neither of these two groups can be motivated by competitive considerations. Their positions with respect to variable annuities are simply the expression of their responsibilities as public servants.

To demonstrate all the defects of these bills would take more time than today's schedule allows. But a few examples may, I believe, demonstrate their total defectiveness.

Funds Highly Regulated

Operation of a variable contract company will, for all practical purposes, be identical to operation of an open-end investment company. Now open-end investment companies are subject to a vast body of regulation. The Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940, the Statement of Policy of the Securities and Exchange Commission.

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Hugh W. Long

Continued from page 33

Pros and Cons of Variable Annuities Debated

and the "blue sky" regulations of the various states—all these contain provisions which experience has proved necessary to protect the public interest in the operation and sale of common stock investment plans. Because it is the principal statute relating to investment companies, I'd like to highlight some of the terms of the Investment Company Act of 1940 and demonstrate how these New Jersey bills ignore time-tested provisions without which the investor would find himself unprotected.

I should like to stress, first, that it is our considered judgment that, as a minimum, the protective provisions of the 1940 Act and of the other Securities Acts should be written into these New Jersey bills. We also believe that a state insurance department, staffed and experienced to render protection to buyers of insurance and annuities, is totally inexperienced in the regulation of equity investment plans and would be unable to give adequate protection to buyers of variable annuity investments. The Securities and Exchange Commission and the state securities departments have the experience and staffs necessary to give the public this protection.

These bills would charge the State Insurance Department with responsibility for implementing the skeletal terms of the bills themselves with regulatory provisions and rules. Is this not an unwarranted delegation of legislative authority to an executive department, particularly in view of that department's inexperience in regulating the operation and sale of common stock investment plans? Is it not apparent that it would take two or three years or even longer for that department to acquire the necessary staff and experience to perform adequately in a field entirely new to it?

What are some of the regulatory specifics with which we are concerned?

The 1940 Investment Company Act requires a detailed registration statement from each investment company, including a thorough recital of the company's fundamental investment policies—policies which cannot be changed without prior approval by the company's shareholders. Assembly Bills 450, 451 and 452 lack these protective features.

The 1940 Investment Company Act contains a provision limiting to 5% the amount of an investment company's assets that can be invested in the securities of any one corporation. This requirement forces the company to diversify, to give its investors the benefits of wide diversification of investment risk. These New Jersey bills are silent on this, and application of the general statutes is vague, we believe.

The 1940 Act requires that detailed financial statements, complete with lists of portfolio holdings, be filed annually with the SEC. These reports must be filed for the same fiscal date each year. Assembly Bills 450, 451, and 452 speak most vaguely about the content and dating of reports to the Insurance Department.

The 1940 Act also says that a diversified investment company cannot own more than 10% of a corporation's outstanding stock, which rules out the possibility of corporate control by an investment company. The Act also prohibits self dealing, and conflict of interest between officers of an investment company and companies whose stock the investment company owns.

Fears Corporate Control

These New Jersey bills are silent here, too. Under these bills it would be quite possible for a variable account company to acquire, in effect, the control of a corporation which was organized by and for the benefit of the officers of the variable contract company.

Now I have no concern about the integrity of the sponsors of these bills. They do not have self-dealing in mind, I know, and I am sure that pyramided companies, that hierarchies of interlocking directorates and that other evils that have cropped up in the business world in the past have no place in their thinking.

But the provisions of these bills are not restricted to their present sponsor. We can not be certain of the motives of new insurance companies which might be formed in New Jersey because of the attractiveness of this legislation to promoters. And we can't predict what motives might prompt such people to buy control of stock insurance companies which are presently domiciled in this state.

If there is a possibility that just one widow or one retired person can be misled through the absence of adequate disclosure requirements in these bills, there can be no justification for hasty passage of this legislation. We believe there is more than a possibility that such misleading and misrepresentation will exist if these bills are passed. The model for adequate disclosure regulation is already on the Federal and state statute books, gentlemen. It is embodied in the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940, the various state "blue sky" laws and in the rulings that have been developed to implement these basic laws.

May I offer one more indication of the need for most specific regulation in the marketing of all types of securities including variable annuity securities. This shows how variable contracts can be misrepresented. Under the Statement of Policy of the SEC, it would be clearly illegal for an investment company or officer of an investment company to publish or use literature so misleading as that from which I shall quote.

I should like to quote from an article entitled "Immediate Variable Life Annuities" which appeared in the February, 1956 issue of "Trusts and Estates" magazine. I am quoting only one of the several similar references contained in the article:

"... If the entire \$20,000 had been used to buy a variable life annuity in 1932... the average (annual) return on the premium (would have been) over 20%..."

This article was written by George Johnson, father of the variable annuity idea and, until recently, President of the Variable Annuity Life Insurance Company which is located in Washington, D. C. and against which the SEC has filed court proceedings to require that it register under the Securities Act of 1933 and the Investment Company Act of 1940.

Disputes Yield Contention

I take violent issue with Mr. Johnson's statement that a variable annuity can return 20% per year. The yield, or return on an investment, gentlemen, is determined by dividing the cost price into the dividend paid for a year; returns on quality common stocks today are in the 3-5% range. Mr.

Johnson has no magic formula for improving returns. He simply neglected to indicate that the payout from a variable annuity consists of a combination of investment return plus a refund of a portion of the investors capital.

This article is misleading. It would be no more and no less sound, and equally misleading, if I were to tell you that an investor in one of my companies can obtain a return of 53% per year. He could, if we were able to earn 4% per year net on our portfolio and if he redeemed 50% of his capital each year for two years. Of course, at the end of the period he'd have no invested capital left.

I have tried to be specific in an effort to show how investment regulation is essential to protect the public from being victimized by deliberate or unintentional misrepresentation in the sale of variable contracts. Yet I've barely scratched the surface of the detail that is required in a plan that will assure adequate regulation.

I repeat that I'm not too concerned about the intentions of the sponsors of these bills. They are a sound and highly ethical and successful mutual company. My own companies' group insurance is, in fact, a contract with the Prudential.

I am greatly concerned, though, about what might develop if these bills are passed. For they will make New Jersey a very attractive state in which to organize and domicile a stock life insurance company for the sole purpose of issuing variable contracts. These bills make the variable annuity business a most profitable business for the promoters and stockholders of such a stock insurance company.

Inducement to Others

The provisions of Section 8 of Assembly bill 451 offer a most attractive inducement to organizers of new stock insurance companies for the purpose of issuing variable annuities. Let me tell you why:

(1) the risk to the promoter is virtually non-existent; the public who buy the contracts bear the risk,

(2) the promoter can make himself a high-salaried officer of the company; these bills set inadequate limits on expenses, officer or employee compensation, and selling costs. In addition,

(3) this provision permits the promoter to compensate himself in hard cash on the basis of unrealized paper profits. These are profits that may never benefit the owners of variable contracts, because the profits on which the promoters have compensated themselves can disappear with a decline in the stock market.

Gentlemen, if these bills become law, they will be an open invitation to opportunists and promoters everywhere. Certainly I hope that my state of New Jersey is not about to become a haven for the exiles from Wall Street or for the operators who have been forced out of business in the clean-up of the insurance business in Texas.

We of the open-end investment companies have long established records for performance in our investors' interests and to their profit. We do not believe that the sale of properly regulated and equitably taxed variable contracts would be damaging to our business.

We respectfully urge this legislature not to approve these bills which so clearly attempt to bypass the legislation and regulation which experience of years proves is essential to keep undesirable elements and practices out of the securities business.

By **EDWARD T. McCORMICK**
President, American Stock Exchange

I want to thank you first of all for the opportunity to appear before you with reference to the serious problems raised by the proposed "variable annuities" legislation that you presently have under consideration. Since I know that the demands upon your available time are pressing, I shall make my statement as brief and as pointed as possible.



E. T. McCormick

Let me say that I concur generally in the remarks made by Mr. Keith Funston, and add only my own opinion as expressed in a telegram on May 26, 1956, to Senator Malcolm Forbes, that I do not have the slightest doubt that the so-called "variable annuities" which might be sold under the pending legislation would be securities, whether considered under the guise of investment contracts or as certificates of interest or participation in a profit sharing agreement. They would certainly seem not to be annuities within the commonly accepted meaning of that term which implies a guaranteed payment of dollars.

Must Be Regulated

As such securities, their sale and their salesmen, should, in the public interest, be subject to the generally accepted sanctions and protections that have been found almost universally necessary through State and Federal regulation. As you well know, the safeguarding of the buyers of securities through such State and Federal regulations has become a keystone in the arch of our present sound financial and business structure. No responsible people in our industry urge that this keystone should be removed or in any way tampered with, because upon it rests that ephemeral element of public confidence upon which the economic future of the country is so delicately balanced.

I urge these views upon you not merely because of my experience in business on the so-called "Street," but as a former long-term employee and Commissioner of the Securities and Exchange Commission.

Pending SEC Action

The recent action of the Securities and Exchange Commission in bringing the action for an injunction in the United States District Court for the District of Columbia against the Variable Annuities Life Insurance Company of America, Incorporated, should be given great weight in your consideration of the bills in question. At least enough weight, I respectfully suggest, to warrant the tabling of any action with respect to these bills until the Federal Court has reached a final decision in the proceeding pending before it. I am sure that you do not wish to take any precipitant action in favor of these bills which might result in an immediate conflict in State and Federal regulatory authority and even in substantial pecuniary loss to New Jersey insurance companies which might sell the so-called "variable annuities" in question, by use of the mails or instrumentalities of Interstate Commerce, and thereafter be subject to not only civil but criminal action under Federal Law.

By **CARROL M. SHANKS**
President, The Prudential Insurance Company of America

Four years ago the New York Legislature made possible the issuance of variable annuities to college teachers in all states including New Jersey. We are now asking the New Jersey Legislature to make possible their sale to those others in the general public who want to buy them.



Carol M. Shanks

The issues here today are the same as those which were studied and decided in setting up the plan for college teachers:

- (1) Is there a problem?
- (2) Has anyone thought of a better way to try to meet that problem?

The problem results from the impact of cost of living changes on the income of retired persons. A person receiving a \$2,500 pension in 1940 would by 1951 have had to receive \$4,500 in order to have the same purchasing power.

We defer to no one in our regard for the matchless reputation of the life insurance industry. The Prudential is organized under the laws of New Jersey and has had its Home Office in this State for 81 years. Today more than 32 million Americans and Canadians have one or more Prudential policies or group insurance certificates average slightly less than \$1,000 in face amount.

Flexibility is essential to the kind of growth we have had. Our company has been notable for the introduction of new forms of protection. When the company started in a basement office in Newark in 1875 its policies were exclusively small weekly premium contracts sold to individuals. During Prudential's early years group insurance was unknown. Hospitalization insurance was unknown. Credit life insurance was unknown. Insured union welfare plans were unknown. Group pension contracts were unknown. Over the years we have expanded into each of these new fields—keeping pace with the changing social and economic structure of the United States and Canada.

State regulation of insurance has provided a healthy atmosphere for progress of the life insurance business. We are perhaps the most highly regulated business in the country. But far-reaching state insurance laws and regulations have proved adaptable to change. Of course, most other businesses can go ahead with new things without legislative or regulatory clearance—just as du Pont needed no governmental approval to start making nylon nor did General Electric need such approval when it decided to manufacture diamonds.

Our far-reaching life insurance regulatory pattern could have been a road-block to progress. But our states have not allowed this to happen. Thus insurance is able to keep providing needed new forms of protection on a private basis without giving the government an excuse to take over the job.

Here in New Jersey the insurance companies and the public have been particularly fortunate in the forward-looking point of view of the state government as to legislation and insurance regulation. As to New Jersey companies the New Jersey Legislature has basic control not only over their operations in this state but in all states.

It is our belief that the life insurance industry as a whole has

a responsibility to cooperate with the insurance, tariff and self-reliance of the great mass of average people to provide them with security plans. It is part of that responsibility to expand and modernize our service in the annuity field—a field which has traditionally represented a great specialized sphere of the life insurance companies.

Our advocacy of variable annuities stems from the dilemma of many persons now retired on individual or group pension plans. Annuity incomes that seemed adequate when purchased years ago today often fail to meet the buyer's needs, primarily because of the impact of inflation on the purchasing power of the dollar.

Prudential believes in the continued need for fixed dollar annuities and insurance policies and will go on stressing them, because nothing else can give such solid protection against loss of income. But we also believe in the need for variable annuities—annuities which provide a life income not of a fixed number of dollars but of variable amounts keyed to an underlying common stock investment portfolio.

We propose to offer variable annuities to supplement fixed dollar annuities or other sources of fixed amount retirement income. Historical studies indicate that this type of combined plan would have provided a fairly constant amount of purchasing power. We are convinced that the proposal offers the best chance of meeting the problem presented by the impact of cost of living changes on long-term retirement plans. No one has been able to suggest a better answer to the problem.

An individual's annuity plan may very well be in force for 40 or 50 years or longer. The accumulation period up to age 65 may last for 40 or 45 years and the actual period of retirement may be 20 or 30 years.

Long-term trends are the ones that count in thinking about retirement plans. The fact that some might guess that there won't be much more inflation in the next year or few years doesn't really have much bearing. Also, in thinking of a long-term variable annuity plan the day-to-day or month-to-month performance of the stock market isn't the test. The real test is whether we believe in the long-term future of our great productive enterprises. There is certainly nothing very radical in suggesting that our retired people should have a chance to participate in that future.

Such people in the securities business as oppose this proposal don't even claim they can use the variable annuity approach to the problem. Unless they become life insurance companies, they can't use the annuity principle of guaranteeing to spread a principal amount and the earnings thereon over a full life time.

But they assume that if life insurance companies begin selling this new coverage it's going to mean competition. So even though they should be our top apostles of private enterprise and free competition they are turning heaven and earth to have this new idea suppressed by governmental action.

Before this Legislature they are asking that certain statutory controls over accounting and reporting practices of life insurance companies should be kept as a strait jacket to block this progressive move.

Before Federal agencies in Washington they have asked that variable annuities should be taxed to death and regulated to death.

The New Jersey Legislature can't revise the Federal tax laws or extend the Federal Securities Acts. Nonetheless you will probably hear a lot today about Federal taxes and Federal securities regulation. The opposition doesn't want to seem to be against prog-

ress and so they will continue to try to dignify their efforts to suppress competition by talking about taxes and the SEC.

Their talk about regulation completely ignores the far-reaching and effective regulation of insurance companies by state governments. Apparently they have fallen victim to the philosophy that all governmental regulation of business must be centralized in Washington.

We feel there is no justification for treating variable annuities as "securities" subject to Securities and Exchange Commission jurisdiction.

Even if it should be held by the courts that variable annuities, as we plan to issue them, are subject to SEC jurisdiction, it would not alter our plans to go ahead. We would then comply with SEC requirements just as we now comply with all laws to which we are subject.

There is no unfair regulatory advantage and no unfair tax advantage here. As a matter of fact, we are satisfied that after variable annuities are being issued generally the mutual fund salesmen will be claiming that their product offers a tax advantage just as they are already doing with the shares of the so-called "Canadian domiciled" mutual funds that are being sold in this country.

There isn't any tax loophole here. Far from it. But even if there were, experience proves that Congress and the Treasury have been alert to plug up loopholes. Arguments about Federal taxes and Federal securities laws have no place here.

The participation of Federal agencies has not been necessary to see that insurance companies backed up their present policies and annuities contracts by investing on a sound basis. Far-reaching state regulation has done its job admirably. The right to make common stock investments is not the special prerogative of any limited group of enterprises.

In recent years the New York Stock Exchange and Wall Street securities firms have spent hundreds of thousands of dollars telling us in newspaper and magazine ads that retirement plans should make extensive use of common stock investments. Today they are in an uproar because we believed them.

We urge the adoption of Assembly Bills 450, 451 and 452. We are convinced this is a good program—good for the life insurance companies, good for their agents, and most important of all, good for the public.

There is a large, wholly impartial group that knows a great deal about variable annuities already—and also knows a great deal about the life insurance business and its existing products and sales methods. These are the hundreds of college and university teachers of insurance. In response to a questionnaire sent to this group 84% of the 319 college teachers of insurance who replied answered "Yes" to the question "Do you think variable annuity contracts should be offered to the public by life insurance companies?" Similarly, of over 550 members of the American Finance Association who responded to such a questionnaire, 78% said that they thought that variable annuities should be issued by life insurance companies. Over 70% of the members of this association are either university teachers of finance and economics or corporate officers and executives with a professional interest in finance.

Out at the University of Indiana another type of survey has just recently been completed. It dealt with how many life insurance companies expect to be issuing variable annuities within the next 18 months. The survey states that 96 life insurance companies expect to be issuing variable annuity contracts within that period.

In Wisconsin a Governor's Commission on state retirement plans is actively at work on a variable annuity plan for state employees. The Airline Pilots Association has shown substantial interest in the variable annuity. Since health standards for pilots are extremely high, a pilot may retire at a somewhat lower age than the rest of us. And quite a long retirement may result. It is the belief of the pilots association that a conventional retirement plan providing a fixed dollar income over a 15 or 20 year period or longer could create serious financial problems that a variable annuity plan might help prevent.

Other prudent long-term investors, including those with trustee responsibilities, have increasingly recognized that common stocks have a place in their overall investment programs. In last year's report of the Fulbright Committee to investigate the stock market it was brought out that bank administered personal trusts, on Dec. 31, 1954, held \$32.7 billion of common stocks. At current market levels this figure would be even higher. In addition the Fulbright Report showed that \$6.3 billion of common stocks were held by religious, educational and charitable funds—all of which must be administered pursuant to the highest trust responsibilities. The variable annuity will make it practicable for life insurance companies to join this trend toward increased use of common stocks. In a sense we are only asking for permission to catch up with the parade.

Canada Dry Ginger Ale 4% Debs. Offered

Union Securities Corp. and Hornblower & Weeks, joint managers of an investment banking syndicate yesterday (June 27) offered \$12,000,000 of Canada Dry Ginger Ale Inc. 20-year 4% sinking fund debentures, due June 1, 1976, at 100% and accrued interest.

Net proceeds from the financing will be used by the company for general corporate purposes.

The debentures will be redeemable at the option of the company, after five years, at redemption prices ranging from 104% to 100%, and for the sinking fund at 100%, plus accrued interest in each case.

Canada Dry Ginger Ale, Inc., manufactures and distributes a full line of carbonated beverages in the United States, the most important of which are Canada Dry Ginger Ale, which is manufactured under a secret formula, and Canada Dry Club Soda. Its other carbonated beverages include Canada Dry Quinine Water, Collins Mixer, assorted flavored drinks and Spur, a cola-flavored beverage. The company has a network of company-operated bottling plants, of which there are 21 in the U. S., four in Canada and two in Cuba. Another major division of the company's carbonated beverage operations is the licensing of independent bottlers in the United States, Canada and other countries. As of May 31, 1956, there were 167 licensed bottlers in the U. S., 18 in Canada and 69 in 42 other countries. The wine and spirits department of the company handles the national distribution of a comprehensive line of alcoholic beverages, both imported and domestic.

For the fiscal year ended Sept. 30, 1955, the company and its consolidated subsidiaries had net sales of \$74,259,000 and net income of \$3,491,000. For the six months ended March 31, 1956, consolidated net sales aggregated \$35,530,000 and consolidated net income amounted to \$1,091,000.

Bank and Insurance Stocks

By ARTHUR B. WALLACE

This Week — Insurance Stocks

There has already been given here the 1955 consolidated earnings, broken down, of the principally traded fire and casualty insurance stocks. This space has consistently maintained that in the insurance business shorter periods of statistics mean comparatively little by themselves, that investors would do well to select periods of ten years, or even longer, in which to put insurance statistics to a test. And utilizing such a longer span, a favorable or unfavorable trend may be discerned that will be more meaningful than merely several years' data.

So it is that there is given this week earnings statistics for both 1955 and for a ten-year average, 1946-1955 inclusive. These earnings figures have been adjusted for stock dividends and split-ups in the decade. The ten-year period has been an important one, for it embraces several years of pronounced inflation of the economy, as well as several comparatively stable years; and it put insurance management to one of the severest tests in their handling of extended coverage in a term that saw a number of devastating hurricanes that brought great losses to the industry. Consolidated data are used in the cases of fleets; and earnings consist of statutory underwriting gain or loss, the equity in the change in the premium reserve, plus income from investments, less Federal income taxes, for the net figure.

	1955	1946-1955 Ave.
Aetna Insurance	\$5.43	\$5.58
Agricultural Insurance	1.29	2.82
American Insurance	1.42	2.34
Bankers' & Shippers'	4.58	4.33
Boston Insurance	0.60	2.18
Continental Insurance	2.56	2.66
Federal Insurance	2.25	3.36
Fidelity Phenix Fire	2.72	2.78
Fire Association	3.19	5.11
Fireman's Fund Ins.	4.15	4.27
Firemen's (Newark)	2.86	3.27
Glens Falls Insurance	4.60	5.54
Great American Insurance	2.62	2.47
Hanover Fire	2.86	2.55
Hartford Fire	9.59	7.97
Home Insurance	3.27	3.12
Insurance Co. of North America	5.00	4.08
National Fire	5.15	6.06
National Union	2.84	4.47
New Hampshire	2.03	3.54
Northern Insurance	9.00	6.24
North River Insurance	2.30	2.54
Pacific Fire	4.30	3.94
Phoenix Insurance	2.91	4.62
Providence Washington	1.25	0.37
St. Paul Fire & Marine	3.18	2.45
Security Insurance	2.66	3.43
Springfield Fire	2.60	4.57
United States Fire	1.59	1.75
Westchester Fire	1.95	2.13
Aetna Casualty	12.32	16.13
American Re-Insurance	2.26	1.31
American Surety	1.37	0.86
Continental Casualty	5.65	2.91
Fidelity & Deposit	7.99	6.36
Massachusetts Bond	4.16	2.18
Seaboard Surety	5.85	4.07
United States Fidelity & Guaranty	6.20	5.67

† Pro forma, Federal and United States Guarantee assumed to be merged for decade.

‡ Pro forma, Aetna Casualty and Automobile Insurance assumed to be merged for decade.

It will be noted that in almost every instance the high grades in this list show better earnings for 1955 than for the average of the ten years through 1955. Only a handful of the secondaries showed similar behavior; a considerable majority of them reported a poorer 1955 than the average for the decade. In other words, the "blue chips" showed a more favorable trend; the secondaries a less satisfactory trend. And as the longer term showing is of such importance in insurance stock investments, those showing the better trend give the investor better results.

It is our observation that, somehow, no matter which test insurance stocks are subjected to, underwriting profit margin, earnings trend, growth in investment income, gain to the shareholder, etc., the high grades continue to show as high grades, and the lesser grades seem to continue as just that.

A note of interest: May fire losses, as estimated by the National Board of Fire Underwriters, were \$87,681,000, or 22.1% above May, 1955. Those for the current year's five months were 11% above the like period of 1955.

NATIONAL BANK of INDIA, LIMITED

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Specialists in Bank Stocks

Continued from first page

As We See It

would have to be found has not brought forth any straightforward facing of the issue. It still remains to be seen where the money is really coming from, and no pretense has been made of trying to prune expenditures elsewhere in order to make it possible to proceed with all this road construction without adding dollar for dollar to the tax burden. In point of fact the original proposals of the Administration were so obviously defective and so patently suitable for political attack that one could hardly have expected the Democratic politicians to fail to make the most of their opportunity in this, an election year. And that seems to be essentially the history of this road building legislation to date.

If . . .

If one could be sure—as one certainly cannot—that a national system or systems of roads would be skillfully, carefully, and wisely laid out, and that such a system would be efficiently developed in the years ahead with funds prudently and fairly raised from the people, one might find it easy to give approval, quite possibly hearty approval to some such scheme as that now put forth. Certainly if the motor industry is to continue to produce and sell cars as it has in recent years, and if the people of the country want to increase their ownership and use of motor vehicle transportation, more roads are essential. This is true both locally and on an inter-community and even inter-regional sense. The fact that certain of the recently constructed toll roads have not attracted the traffic their builders expected does not augur a surplus of roads. Roads must, of course, be built where they are needed and wanted—not where some politician or other individual with special interests prefers to have them.

Citizens who have had the opportunity to observe—and who has not? — the political maneuvering that has taken place whenever new roads are being planned and laid out, need not be reminded of the political pitfalls that beset the designer of any system of roads. Our road building of the future still remains to be planned or designed in a practical way, and its financing continues to be a problem for us and our children. There should, of course, be coordination in the planning of road systems—but if we are to be really successful, some way has to be found to by-pass time-serving politicians. Of course, this problem is encountered in virtually all public undertakings—another good reason for keeping such undertakings to a minimum—but when it bears upon projects which are expected to cost many, many billions of dollars, the situation appears to be particularly disturbing.

Squandering Funds

It need hardly be said that the real reason that so much trouble is encountered in finding ways and means of financing such a road building program lies in the fact that the funds of the future have already been committed to so many things which can hardly be expected to be productive in any real sense of the term. This fact is the more to be lamented by reason of the circumstance that the world situation—for which we ourselves may be in part responsible—requires that so large a proportion of our efforts be given to preparedness for war. Few have given real thought to the extent to which the old-age and survivors insurance scheme will presently draw upon the resources of the productive elements in the population. Yet that drain exists and will grow more and more staggering as time passes.

The lavishness with which we have played politics in the matter of special benefits for the veterans of our accumulating number of foreign wars is another case in point. There was a time when "pension scandals" filled the newspapers of the day. We thought—and we were right—that moneys paid out to veterans without any real claim to them were a first rate scandal. The bonuses, and the various other devices that we have invented, often merely to catch and hold the votes of the returned soldiers, sailors and marines, have, of course, long since caused the old pensions to pale into insignificance. In this case it is not only what all of it is costing today both directly and indirectly, but what it must inevitably cost in the future by reason of guarantees of loans and the like.

What ought to be done in the matter of more and better roads laid out with more foresight is simple enough. Much of it is strictly local in significance and importance. That should be taken care of locally. Federal aid for such projects is quite unwarranted, whether directly or indirectly provided. All too often in this day and time Fed-

eral funds are supplied merely because it seems to be so much easier for the Federal Government to raise funds. A much sounder practice is to require local people to provide themselves with what they want. They are in a position to know what it costs and to decide whether they really need the improvements enough to pay for them. Similar reasoning, of course, applies in many instances to state aid to local communities.

Even in the case of larger road systems, their benefits often accrue chiefly to certain individual states and should really be paid for in rough proportion to benefits received. Naturally there will be sort of national residual which must be charged against the nation as a whole, but the current tendency is to have the Federal Government put up most of the funds.

We still have our road problem!

Continued from first page

Coal's Vital Place in World Prosperity and Peace

heaviest part of this second one, too.

Coal actually furnishes today the greatest share of the world's energy. As energy needs double in the next generation, more and more coal will be required. The energy demand will be so great that all coal, as well as all other energy sources, will be needed.

How will this extraordinary demand for coal be met?

Meeting Extraordinary Coal Demand

We know the United States has the world's largest recoverable coal reserves, and the capacity efficiently to produce it. Behind the Iron Curtain, in Russia and Red China, are also vast reserves of coal. We may assume their ability to mine it and their own growing need for it. In South America and Japan, the coal resources cannot keep up with the growing needs and they are importing United States coal.

There is one vital area in the Free World, however, where a serious shortage of coal threatens both prosperity and peace. It is about the coal hunger of the nations of Western Europe that I should like to speak. This year over 40 million tons are going abroad to help meet this deficiency. In the years ahead Europe's import needs will be much greater. It is vital that American coal in the necessary amounts be made available to Western Europe, for it has a direct bearing upon the economic strength that underlies the ability to resist aggression.

How big is Western Europe's new demand for energy? Western Europe used 805 millions of short tons of coal equivalent in energy in 1955. This is made up of coal and lignite 597, oil products 139, hydroelectric 63, and natural gas 6. Of the coal, 27 million tons were imported from the United States. This was 71% of all United States coal exports in 1955.

The biggest customers in Western Europe, last year, were: Germany, which took 6,672,000 short tons; Italy, 6,056,000; the United Kingdom, 4,858,000; The Netherlands, 4,623,000; Austria, 1,219,000; Belgium and Luxembourg, 1,142,000; and France, 1,017,000.

Western Europe's Future Demand

What is the probable future coal demand in Western Europe? Western Europe's energy demands expressed in the equivalent of millions of short tons of coal will go to 926 in 1960, and to 1,323 in 1975. These projections are made in the report just published by the Organization for European Economic Cooperation.

The world-wide expansion of steel-making capacity is a reliable guide to the magnitude of future increased coal use, keeping in mind that it takes a ton of coal to make a ton of steel. The hard core of European demand for

United States coal is for metallurgical purposes. Europe consumed 17.5 million tons of United States metallurgical coal in 1955, and is reported to be seeking 22.5 million tons for 1956.

The O.E.E.C. estimates European coal imports from the United States will be—27 million tons in 1955, 44 million in 1960, and 55 million tons in 1975. The report says it has taken 55 million tons as the maximum because larger amounts would probably need considerably increased port and transport facilities. "Larger imports in the future—says O.E.E.C.—would almost certainly have to come from the United States and their cost would be largely dependent on the level of transatlantic freights at the time." It is my belief that both port and transport facilities can and will be improved, and that United States export can go to the level of 100 million tons a year.

The exportation of American coal overseas began as far back as the 1890's. The first really substantial movement of export coal occurred in 1920 when 22 million tons went to overseas and destinations. Another peak movement of 22 million tons occurred in 1926, caused by the British coal strike. But in other years the export volume varied widely, and it was not until after World War II that export became a major factor in the coal industry.

Coal exports from the United States since 1920—during the average annual tonnage from 1920 to 1945, amounted to 4 million tons—it averaged 22 million tons in the 10-year period 1946 to 1955—and finally, it is estimated to be 42 million tons this year, based on the first quarter.

Production and overseas exports of coal for the last 10 years reveal two high points, 1947 and 1951, but beginning with 1954 we see the development of a year-to-year upward trend in exports. The forecast for this year is a continuation of this rise.

Permanent and Expanding Export

The real significance of the trend is the change in the character of the export coal movement. It is becoming more evident day by day that the foreign demand for American coal is no longer on a spot basis, but is permanent and expanding. Export coal is now being purchased in sizable quantities on contracts of 3 to 5 years duration.

Can Europe increase its coal production materially and lessen dependence on United States imports? It can not.

Chief among the problems of the European coal industry are a declining labor force in spite of recruiting efforts, and the low output of manpower. The coal output per man per day in the United States is 10 tons, compared with 1.21 in Great Britain, 1.12 in

Germany, 0.98 in France, 0.78 in Belgium, and 0.63 in Italy.

In addition to low productivity and manpower decline, other reasons are given for the inability of some countries abroad to increase production in the face of rapidly expanding energy requirements. These include faulty and wasteful mining practices of the past, inability to adapt older mines to mechanization, and difficulties involved in deeper mining. The shafts of British coal mines grow deeper and deeper. In 1924, the average depths was 1,000 feet, today it is 1,300 feet. New mines opened in recent years range from depths of 1,800 to 3,000 feet.

The authoritative London publication, "The Economist," regards the British coal production outlook as "dismal." After six years of diligent long-term planning by the British National Coal Board, and the investment of large amounts of government money in capital improvements and new mines, output targets have been revised downwards and capital costs have been revised upwards.

The National Coal Board forecasts that declining coal production in present collieries would necessitate in the next ten years for new equipment and the opening of new mines, capital expenditures of one billion pounds (close to \$3 billion). Even with this huge new expenditure, British coal production in 1965 will be only 20 million tons more than it was last year. Under these circumstances it is quite apparent that Great Britain, once the coal supplier to Europe, can never again fill that role.

A friend of mine who holds an important place in the British coal and shipping trade recently told me that in 1913 Great Britain exported 75 million tons of coal, 18 million tons moving through his home port of Cardiff, Wales. Last year no coal was exported from Cardiff, and coal loading terminals in that port are being converted into unloading facilities for the permanent importation of coal.

Coal Covers Energy Deficit

Other sources of energy can be expected to expand in response to the heavy demand for more energy. But petroleum, natural gas, and falling water are not available in quantities sufficient to meet the current energy deficit. Atomic energy, on a commercial basis, is too far in the future to bear any sizable portion of the load.

The O. E. E. C. report says that the popular enthusiasm aroused by nuclear energy, and the headline publicity given to developments of relatively small importance have been unfortunate. This is a false impression of the contribution that nuclear energy is likely to make to Western Europe's energy needs during the next 20 years. The report forecasts that nuclear energy will not provide more than 8% of the total energy demand in Western Europe in 1975. It is a mistake, the report indicates, to assume that atomic energy on a large scale is just around the corner. The conclusion is:

"For many years to come conventional forms of energy will be needed and coal must remain the mainstay of the Western European energy economy."

Thus, we find that international trade has become an established part of the coal industry in the United States. We now face the responsibility of seeing to it that the exportation of coal continues to be the billion dollar business the U. S. Department of Commerce has called it.

Now is the critical time to examine this channel of international trade that has been set up, connecting the American coal mine with the foreign consumer, what needs to be done to strength-

en the channel, and keep the coal moving?

There are four major parts in this channel.

(1) Production of the coal at the mines.

(2) Rail transportation from mine to tidewater.

(3) Ocean transport to foreign shores.

(4) Unloading and distribution of the coal overseas.

Conservative Financial Institutions

As to the first our highly mechanized and efficient coal mining industry has well established its ability to produce the coal at low cost. The coal producers are making heavy capital expenditures to enlarge operations, increase capacity, and reduce costs. It is estimated that they will increase their capital spending this year to \$300 million. This faith and confidence being exhibited by the American coal industry have spread to our most conservative financial institutions, such as banks, investment houses, and trust funds.

A recent advertisement by a leading bank, the First National City Bank of New York is headlined "Bright Future for Black Diamonds," and it continues "Coal production can more than double by 1975... with bank help." Please notice particularly those last three words. When a bank wants to put its money behind coal's future, it is saying it with more than words.

A heavy responsibility rests upon the coal industry to produce good low-ash coal, well prepared, and reasonably priced. Far-sighted producers recognize that a quality product alone is the firm foundation of the export coal trade.

We can count on the solid backing of the miners in maintaining high productivity and efficiency. The United Mine Workers of America, to its credit, has historically supported mechanization in the industry. Six years of peace in the coal industry have proved what progressive men can do working together.

Rail Will Play Its Part

(2) Next is rail transportation from mine to tidewater. Speaking for the two largest railroads that originate coal for export, who together move 80% of all the coal exported through the port of Hampton Roads, we recognize fully our obligation to provide an ample supply of coal cars for loading, to maintain adequate facilities for dumping, and to give good service at reasonable rates.

These railroads are now making heavy capital expenditures to increase the capacity to handle export coal at Hampton Roads. At Lambert's Point in Norfolk, the Norfolk & Western is building additional tracks, piers, and terminal facilities. The Chesapeake & Ohio has under construction at Newport News a new coal pier that will go into operation this fall, with supporting yards, tracks and other terminal facilities.

The two roads together now have nearly 14,000 new hopper cars on order, and bad orders are at an all-time low (around 1%).

The railroads are handling this export traffic at less than a cent per ton mile, in trains which represent the world's lowest cost land transportation.

Because of these efforts of the coal producers and the coal carrying railroads to do their cooperative job more efficiently and more economically, this remarkable fact can be stated:

—The superior coals of the United States can be mined and delivered to tidewater piers, ready for shipment overseas, at much less than the cost of coal at the mines in Great Britain, Germany, France, and other coal producing countries.

Ship at Competitive Cost

(3) Third is ocean shipping. Much credit is due to the shipping companies for their part in preserving the export market. When we consider that there has been no merchant marine as such for the handling of export coal, a miracle of transportation has taken place. A fleet of ships has been put together that last year transported 38 million tons of coal abroad, truly a great achievement.

But the quality and quantity of ocean shipping are limited. Herein lies one of the greatest problems. We need larger, better and more modern ships that can get the coal across the ocean at a cost low enough to hold the markets.

(4) No less important is the fourth factor, the unloading of the coal at the foreign port and its delivery to consumers. Large bulk terminals, as modern and efficient as the U. S. coal loading piers, should be constructed at the other end of the ocean routes for low-cost redistribution of the coal cargo.

Forward looking decisions taken now can provide immediate relief for these four problems areas, and will lay the foundation for an international coal trade that could go a long way in stabilizing the economy and peace of the world. There is too much at stake to stand by and do nothing when we see that there are inadequacies in our international coal trade channel.

The American coal industry, the miners' union, and the railroads have joined in an unprecedented partnership. It is my privilege here today to announce the foundation of an organization which will have a far-reaching effect on the future of our foreign trade in coal.

Announces New Export Venture

Late last fall the top executives of the industries and organizations most vitally concerned with the overseas export of coal held joint discussions in Washington. Called by Joe Moody, President of the Southern Coal Producers Association, the group included the chief executives of the larger exporting and coal producing companies, the President of the miners' union, and the presidents of the coal-originating railroads. A survey of all phases of the coal business was made, and on May 28 the group voted to organize a new corporation, to be known as American Coal Shipping, Inc. Papers of incorporation were filed earlier this week, capitalizing the company at \$50 million.

This new corporation will promote the export coal trade on the broadest possible basis. Its first proposal is to enter immediately into the ocean shipping business, by acquiring ships of its own and placing them in the export coal trade. Other plans will follow, directed toward additional problems in the international movement of American coal. It will be remembered that it was four years ago that Mr. John L. Lewis proposed cooperative venture to provide more ships for export coal.

This is an historic moment in the coal industry. We stand as a cohesive group — the coal producers, the miners' union, the exporters, and the railroads. Our unity is the assurance to the free nations that coal, America's greatest and most abundant natural resource, will find its vital role in world prosperity and peace.

William Langmore

William Langmore, formerly in the investment business, passed away at his home June 21st at the age of 49 following a long illness.

With Suburban Secs.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, Ohio—Joseph M. Kerekes is now with Suburban Securities Co., 732 East 200th St.

Railroad Securities

By GERALD D. McKEEVER

Denver & Rio Grande Western

It is now possible to settle down and appraise the Denver & Rio Grande Western situation on the basis of realities which are certainly most favorable by themselves. The U. S. Supreme Court decision of June 11 has, for the time being at least, dispelled dreams of a possible windfall from the Ogden Gateway case which has been hanging fire for more than seven years. This decision of the High Court upheld the ICC order of 1953 which granted the "Denver" joint freight rates with the Union Pacific on a very limited number of commodities on interchange through the Ogden Gateway.

The ICC order of three years ago had been appealed by both roads—by the Union Pacific which wanted no part of a joint rate arrangement, and by the "Denver" because of the relatively inconsequential gain provided by the order. The High Court decision sustaining the ICC thus precludes, for the time being at least, the possibility of an "across the board" joint rate arrangement which the "Denver" had so long been striving for, but may not stand in the way of separate actions from time to time for the establishment of joint rates on specific commodities or groups of commodities in respect of which the latter might be able to prove competitive disadvantage or injury. In the meantime, however, the decision of two weeks ago is regarded as being somewhat of a victory for the Union Pacific.

The effect of this on the price of "Denver" stock has nevertheless been small. The decline to date has been only a little under two points, but this has been admittedly in a period when rail stocks generally have been firm to a little higher as measured by the averages since June 11. The gain has been more noticeable in the Dow Jones Rail average. The corresponding Standard & Poor's average has showed only small fractional gain in the same period.

There may be several reasons for the market's having taken the final word on the Ogden Gateway case so largely in its stride. In the first place, many of those who bought "Denver" speculatively some time ago in the expectation of a favorable outcome may have long since become tired out and sold their stock. Secondly, there is the possibility that it is taking time for the interpretation of the decision to be digested and to be reflected marketwise. Finally, there is the stronger probability that the price of "Denver" has been "cushioned" and supported by sounder buying on the strength of its relatively modest price around the 42 level based on current earnings and giving little recognition to the strong growth forces that are evident in this situation.

The Denver & Rio Grande Western in 1955 earned \$5.01 per share on its present stock capital which represents the 50% stock dividend of 1953 and the 3-for-1 split of May of last year, or a total "split" of 4½-for-1. Net income has increased each year since 1948 due to revenue gains combined with steadily improving efficiency. The latter factor was most in evidence in the earnings gain in 1954 and 1955 even when revenues lapsed from the upward trend of prior years. This year is seeing a resumption of gain in revenues, however, as well as continued tight control of expenses in spite of the increase in wages and other costs. The road has estimated the wage increase of 1955

at \$2½ million annually but the freight and passenger rate increases look like they should cover this amount, even in 1956.

Due to the rate increases and higher level of traffic, the sharp increase in gross revenues forecast for this year, bringing it close to the all-time peak made in 1953, net may be \$5.40 to \$5.50 per share. Selling at about 8 times this expected per share result, "Denver" stock is thus quite soundly priced. It would thus be surprising if it were to be adversely affected by the failure of speculative expectations to work out completely.

A middle link in the transcontinental route formed by its connections with the Missouri Pacific, the Burlington and the Rock Island at its eastern end and the Western Pacific and the Southern Pacific on the western, the "Denver" is benefiting from expanded connecting traffic from both directions. Of greater importance, however, it is enjoying the fruits of rapid growth in its own territory. Since 1949 the road has added \$6½ million of annual revenues from industrial installations on its own lines. Last year the Geneva, Utah plant of the Consolidated Western Steel (U. S. Steel) made an \$8½ million investment in increased capacity and its \$18 million anhydrous ammonia plant is scheduled for completion this year. The road is naturally enjoying heavy volume of traffic from peak or near-peak operations of both the Consolidated Western plant at Geneva and of the Colorado Fuel and Iron plant at Pueblo.

Growth of both the revenues and traffic (ton-mileage) of the Denver & Rio Grande Western has consistently held well above the corresponding trends of both the Class I total and of the average for the Central Western district for the past five years. In addition the road has gained greatly in operating efficiency, as a result of which it stands close to the top of the list as to the ratio of carry-through of gross revenues to pre-tax net operating income. Referring to the ranking of leading Class I roads according to this measure in the March 29 issue of the "Chronicle," it will be noted that the "Denver" stands sixth in this particular tabulation.

One key to the steady improvement in operating efficiency has been the increase of over 100% in gross ton-mileage per freight train hour since 1946. This has been facilitated by the constant progress in dieselization throughout this period to the point where dieselization powered 99.6% of standard gauge freight train miles in 1955, resulting in the lowering of the transportation (cost) ratio to 29.4%, or the lowest since 1943. Further dieselization, largely to take care of growth and need for heavier power, is contemplated in the road's \$6.7 million capital expenditures budget for this year, which includes \$2 million for 12 additional diesels. Another important factor in the road's operating efficiency is that 522 miles of its line or just about an even 25% of total road mileage is now operated under Centralized Traffic Control. A further step in automation is planned for this year in the installation of automatic electronic control of car retarders in the otherwise very modern Grand Junction, Colo. classification yard.

A source of saving which will be more fully felt this year is the abandonment of the 137.5 mile narrow gauge line between Poncha Junction and Gunnison, Colo.,

together with 18 miles more of branch line. The application for this, filed in 1953, was favorably acted upon by the ICC last year, and this line was dismantled during the year. However, this still leaves the road with 314 miles of narrow gauge, the efficiency of which is well below the system level. This is only partly indicated by the fact that while the overall factor of gross ton-miles per freight train hour last year was 62,928, the corresponding figure, exclusive of the narrow-gauge operation, was 66,276. This is aside from the question of unprofitability of much of this light-density line.

An interesting aspect of "Denver" stock is that, although the road is showing vigorous growth, its stock capital is being contracted. During 1955 their road purchased about 124,000 shares and it was announced on May 16 this year that it held 170,811 shares in its treasury to cover the 170,810½ shares which stockholders on April 11 of this year voted to retire. This acts to increase the leverage in these shares which was considerably reduced by the elimination of the former 5% preferred stock by conversion, which was completed in 1954. Leverage is an attractive feature in a growth situation, and apparently the road and its stockholders set greater store by improving on this aspect than by using its excess funds to retire bonds. This tends to suggest that there may be no early plans to refund the three bond issues of the road which arose from the 1947 reorganization.

Union Tank Car Co. Offering Underwritten

The Union Tank Car Co. is offering to its stockholders of record June 22, 1956, the right to subscribe on or before July 9, 1956, for 335,714 additional shares of capital stock (no par value) at \$20 per share at the rate of one new share for each seven shares held. This offering is being underwritten by a group of investment banking firms headed jointly by Smith, Barney & Co. and Blunt Ellis & Simmons.

The net proceeds will be added to the general funds of the company, to pay for company's expansion program.

The Union Tank Car Co. which was incorporated in New Jersey in July, 1891, and until 1912 was a subsidiary of the Standard Oil Co. (New Jersey), is engaged in the business of furnishing railway tank cars owned by it to shippers of liquid products in bulk, and of building and maintaining such cars in its own shops.

Now Colson, Marsh

WASHINGTON, D. C. — The firm name of the Marsh Planning & Investment Company, 1832 M Street, N. W., has been changed to Colson, Marsh and Company.

Now Reliance Secs.

The firm name of Columbia Securities Corporation, 135 Broadway, New York City, has been changed to Reliance Securities Corporation.

Now Tankersley, Elliott

ALBUQUERQUE, N. M. — The firm name of Whitney & Company, Incorporated, Simms Building, has been changed to Tankersley, Elliott & Morris, Inc.

Firm Name Watson & Co.

SANTE FE, N. M. — The firm name of Watson, Geer & Swetnam, La Fonda Hotel, has been changed to Watson and Company.

Milton E. Larke

Milton E. Larke, member of the American Stock Exchange, passed away on June 19.

Continued from page 5

Electronic's Investment Outlook

of how important brand names are to the American public. This one fact in itself seems to account for the increasingly large share of the business going to fewer and fewer companies. Only those companies which can expend tremendous sums of money in advertising and promotion have even a chance of maintaining their position. In order to achieve \$1.5 billion of sales during the ten-year period from 1946 through 1955, one company spent roughly \$100 million in advertising. This manufacturer started almost from scratch as the name was relatively unknown prior to the postwar period. Simply stated, only the blue chip companies can afford the advertising dollars which must be spent. An interesting statistic is that during the last ten years while the total national output increased less than 100%, total advertising expenditures rose almost 200%.

Bright Outlook and Possible Pitfalls

Even if 1956 eventually becomes known as "the year of the vanishing profit margin," the future for the leading setmakers does look bright despite increasing pressure on manufacturers to lower prices and make less money. At this time well over 90% of all homes have only one television set. Due in part to the introduction of the new personal portables, we would not be surprised to see the day when many families will have their large screen set in the living room with portables in the kitchen, bedroom and/or children's room. One of the industry's best forecasters, Ross Siragusa, of Admiral, predicts that the industry will sell 10 million sets in 1957. He is certainly not basing all of this optimism on color sets as in this total he includes only half a million of the rainbow variety. His projection calls for large screen sets to account for five million units and personal portables for 4½ million. Nor does Mr. Siragusa feel that 1957 will be a flash in the pan. He has gone on record that the industry will sell 100 million television sets in the next decade. Obviously this is not a dying business.

Nevertheless, the pattern just outlined in regard to the rise and fall of some setmakers points up possible pitfalls for investors. The analogy of television manufacturing with the automobile makers throughout the years is too plain to ignore. With sizable growth already achieved by several companies which are largely dependent on consumer acceptance of their products, the amount of investment gain appears to be limited in comparison to the opportunities available in the wide variety of smaller companies which do not sell to the public. Broadly speaking the various types of electronic companies in this latter category break down into the following groups: end equipment and systems manufacturers; component parts makers; instrument makers and electronic specialties. We have already touched on the "entertainment" type of manufacturers, so will conclude with comments on the others.

In selecting a few equities to discuss, we have for the most part, tried to avoid the well-known companies which are immediately identified with the electronics industry, on the assumption that you are already familiar with these. At the same time, we have not included the stocks of companies which recently may have set up a small laboratory with a few electronic engineers on the theory that it is "the thing to do" in order to keep up with the times. Generally speaking, the smaller the company, the greater the risk,

and also the greater the potential appreciation. Though that statement is considerably over-simplified, it can also be said that to date the investing public has not participated to any great extent in the growth potential inherent in some of the soundly-run smaller companies. Time permits the mention of only 11 more stocks, six of which are listed and the other five unlisted. It might be well to emphasize that these issues should be considered only on a long-term basis.

Issues to Consider for Long-Term

Proceeding alphabetically, we begin with **Admiral Corp.** Admiral's performance, both market-wise and earnings-wise has been discouraging. Starting from 1950, earnings have declined steadily each year. The current price of the stock is about as low as it has been at any time during the past six years. We believe that the trend is in the process of changing. Admiral may attain pre-eminence in personal TV portables. Through printed circuitry and automation it will be possibly the lowest cost producer in the industry. With its aggressive merchandising ability we are of the opinion that in the continuation of what is already a brutally competitive television market, Admiral will more than hold its own. The company manufactures more telecasts outside of this country than any domestic maker. There should be a growing foreign market for portables. The low average income and high prices of conventional TV receivers have combined to hold back the growth of television abroad. Perhaps the portable will play an important part in overcoming that serious obstacle.

The broadcasting end of the electronics industry has demonstrated remarkable growth, and even with the current study of network operations being made in Washington, we feel that there is still considerable growth in the proper broadcasting equities. From the standpoint of investment at this time we would select **American Broadcasting-Paramount Theatres.** Earnings from the broadcasting division are increasing faster than those being shown by its two larger competitors. This improvement should continue for a long time to come. Recently the ABC President claimed that his network is already number two in sales of radio time. Furthermore, he claimed that in two years he expects the ABC television business to be fully as large as either NBC or CBS. The same source anticipates certain government legislation by the end of this year which would allow fully competitive three-station television markets in the principal cities. If this is an accurate forecast, it should be highly constructive for ABC. In time, color TV will be of tremendous importance to all of the networks.

The next two companies, **Beckman Instruments and Consolidated Electrodynamics**, are grouped together as basically both of these scientific companies are working in the same direction. Both are firm believers in the importance of research to insure continued growth. Beckman spent 10.7% of sales during the first half of the current fiscal year on research and development. Consolidated also devotes approximately the same percentage of sales to research and development. Both companies have made remarkable progress in a relatively short time. Beckman has increased sales from slightly over \$3 million in 1949 to seven times that figure in the last fiscal year. In the last six years CEC has jumped from \$2.8 million

to \$17.1 million. Naturally the same rate of growth shown to date will not continue, but a 15-20% annual increase from here on in can be anticipated. CEC intends to hold the 162,500 shares of Burroughs stock it will receive in exchange for its present investment in Electro-Data Corp., worth approximately \$6.5 million today, and carried on its books at only \$1,065,000.

Bell & Gossett Co. was founded 46 years ago and until recently concentrated in the field of central home heating and air conditioning. Using the trade name Hydro-Flo, the company is the number one manufacturer of hot water heating equipment as well as electrically driven circulating pumps. Something new has been added, and that is the communications end of electronics. For the last five years Bell & Gossett has been developing and testing their own Dualex communication systems. Introduced only recently, the Dualex selective calling systems have been exceedingly well received by both military and commercial users. In time, the electronics activities of Bell & Gossett could comprise over half of the total sales volume.

Bendix Aviation is probably too well known to require any description at this time. We feel that it affords an excellent vehicle for participation in the broad field of electronics. Bendix is engaged in about as many different phases of electronics as any company in the country and though the management's approximation of the percentage of electronics to overall activity is 40%, it is gradually increasing. 1955 sales break down into three basic categories shows aviation 63%, automotive 20% and industrial 17%. Current backlog (predominantly military) is about one-half billion dollars.

Litton Industries is the exception to the rule we mentioned earlier: generally speaking, engineers do not make the best heads of companies. Here is a combination of outstanding scientists and businessmen. Though only 2½ years old, Litton has already made giant strides and has established itself as a major producer of electronic systems, computers and components. Sales are currently running well over \$1 million per month and are stepping up rapidly. Interestingly enough, highly satisfactory profit margins are being achieved.

Suggested "War Babies"

Certain investors for quite some time shied away from the so-called "war babies." For this reason most of the companies whose major activity consisted of supplying war materiel were valued in the market place at relatively low multiples. Recently this condition has changed somewhat, as more and more people come to the conclusion that a strong defense program is vital. The aircraft makers as a group naturally fall into this category. To call them "airframe makers" is highly inaccurate as these companies for the most part now engage in numerous phases of the defense program, including nuclear energy, power plants and electronics. A large portion of all the electronic engineers in the country work in or for the aircraft industry. It therefore seems fitting that we should at least touch briefly on the aircraft companies.

Our favorite in the aircraft group at this time is the **Glenn L. Martin Co.** Very strong on research, with an extremely broad participation in the guided missile, jet and nuclear propelled aircraft fields, Martin is probably the most improved operation of all aircraft companies. Though its earnings have been in a temporary decline, we feel that Martin is well on the way to eventual record highs in sales and earnings. In addition to the publicly announced major projects at Martin, including Titan, possibly the

most important ICBM, and Vanguard, the earth satellite, the company is engaged in numerous highly classified activities. Martin established a new subsidiary last year devoted entirely to research at the frontiers of knowledge in the physical sciences.

Automation Issues

With automation the most popular word of the year, investors have been looking diligently for stocks in "automation companies." One that we have been following for several years is **Panellit, Inc.**, a leading developer and manufacturer of complex control panels and systems. Sales have increased from less than \$600,000 in 1949 to well over \$6 million last year. New sales records should be set in 1956. Panellit is a good example of how capable management can successfully compete against the industrial giants in a specialized segment of the instrument field.

The Perkins-Elmer Corporation is a leading instrument maker, with special emphasis on instruments for chemical analysis. The company believes that it supplies approximately 90% of the infrared laboratory analytical instruments made in this country. Though previously Perkin-Elmer concentrated on instruments of the laboratory type, the company is currently making equipment for use in automatic process control. Once again, automation rears its electronic head. The sales curve had temporarily leveled off until recently, but new instruments and increased demand for Perkin-Elmer products opened new areas and resulted in a sizable backlog. The two chief competitors are the aforementioned Beckman Instruments and Consolidated Electrodynamics. All three have well defined growth trends indicated.

The most glamorous phase of the aircraft business is probably the missile program. Close to \$2 billion will be expended for the

over-all program during the fiscal year starting July 1. A little known but vital part of the missile program is concerned with various types of electronic test gear for these "birds." One of the leaders in the test equipment field is **Hallamore Electronics, Inc.**, a division of **The Siegler Corporation.** Though a 35-year-old company, Siegler stock was privately owned until last July. At one time, Siegler confined all of its activities to the manufacture of heating equipment. The electronics division still comprises less than 50% of Siegler's sales and earnings, but is growing at such a rapid rate that it appears to be only a matter of time before the electronic tail is wagging the rest of the dog. I believe Siegler is an excellent means of investing in the missile program as it is a company run by young men (the average age of the top executives is 43) with good business experience, and we are of the opinion they are making important contributions to several different aspects of electronics. The financial condition is sound, and sales and earnings are at record levels. Before I leave Siegler and conclude these remarks it should be mentioned that for each dollar spent at this time on missiles, there is virtually an additional dollar spent for test and ground support equipment. Siegler sales for its last fiscal year were \$10.5 million. For the 12 months ending June 30 next year, we would not be surprised if a virtual tripling of sales took place.

Though any investments made at this time pose considerable risk in many professional investors' minds, the record shows that investments in a growth industry have a way of outperforming the averages in a bull market. True growth securities generally move forward vigorously after a bear market cycle has run its course. Thus I believe certain electronics securities belong in every investor's portfolio.

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The State of Trade and Industry

1-June 23 at 576,905 units is trailing 1955's production of 621,482 units by 7%.

Thus far in 1956, said "Ward's," General Motors has garnered 54.3% of total U. S. car output, Ford 27.1% and Chrysler Corp. 14.8%. Studebaker-Packard and American Motors are running neck and neck, each with 1.9% of the total, and less than 70 units apart.

In Canada, vehicle manufacture, set back two weeks ago by a 5-day scheduled halt at Studebaker and heat losses at Chrysler Corp., returned to strong levels last week. The nation's car manufacture since Jan. 1 this year is now behind like 1955 by only 6% and truck erecting is ahead 14% for an over-all lag of only 2.4%.

Steel Industry Set to Close Down Plants at Mid-Week Prior to the June 30 Strike Deadline

A continuing boom in metalworking, the country's largest industry, through the last half of the year was forecast on Monday of this week by "Steel" magazine after an industry-wide survey directed to 5,000 plants.

According to the survey, metalworking dollar sales in the next six months will be nearly 5% higher than those in the first half, which established a new record.

Three of four metalworking plant managers expect second half sales will be as large or larger than those in the first six months, while only 25% see any dip in sales volume, the survey continues.

Executives participating in "Steel's" survey believe there may be a dip in production during July and August, due to vacations, warm weather and other seasonal factors, but they expect the final four months to be strong.

The magazine said indicated sales volume for the metalworking industry in 1956 will be \$138,000,000,000, up 7.3% from 1955 sales. That is more than the total gross national product for any year up to 1942.

Metalworking executives also expect that employment will gain 2.8% in the second half. A shortage of skilled workers will restrict production in 22% of the plants covered and selling prices will advance 3.5%; manufacturing costs will jump 5% and profits will go up 2%. Manufacturing capacity will be increased 3%. Twenty-seven per cent of the companies questioned, it stated, are planning to start expansion of manufacturing capacity during the next six months.

Material shortages are expected to continue to restrict production. Most serious shortages expected are in steel products, copper, nickel and aluminum. All predictions are based on general labor peace and a long steel strike could dispel the optimism, this trade weekly pointed out.

The metalworking authority said that even though steel-

makers hope for a peaceful settlement of the wage issue before the June 30 deadline, they will begin an orderly shutdown of their facilities by midweek.

Should a peaceful settlement be reached near the deadline on midnight Saturday, several days will be required to restore normal steelmaking operations. Should a shutdown be effected by Saturday, some plants may continue through the July 4 holiday before resuming production. Vacation schedules at many metal-working plants are being arranged to fall within the period in which a strike may be in progress, "Steel" concluded.

The American Iron and Steel Institute announced that the operating rate of steel companies having 96.1% of the steelmaking capacity for the entire industry will be at the average of 94.0% of capacity for the week beginning June 25, 1956, equivalent to 2,314,000 tons of ingot and steel for castings as compared with 93.0% of capacity and 2,290,000 tons (revised) a week ago.

The industry's ingot production rate for the weeks in 1956 is based on annual capacity of 128,363,090 tons as of Jan. 1, 1956.

For the like week a month ago the rate was 96.3% and production 2,370,000 tons. A year ago the actual weekly production was placed at 1,716,000 tons or 71.1%. The operating rate is not comparable because capacity is higher than capacity in 1955. The percentage figures for 1955 are based on annual capacity of 125-828,310 tons as of Jan. 1, 1955.

Electric Output Gains for Third Successive Week

The amount of electric energy distributed by the electric light and power industry for the week ended Saturday, June 23, 1956, was estimated at 11,478,000,000 kwh., the third successive week of improvement, according to the Edison Electric Institute.

The week's output rose 53,000,000 kwh. above that of the previous week. It increased 1,252,000,000 kwh. or 12.2% above the comparable 1955 week and 2,497,000,000 kwh. over the like week in 1954.

Car Loadings Register a Further Rise of 1.8% in Latest Week

Loadings of revenue freight for the week ended June 16, 1956, increased 14,356 cars or 1.8% above the preceding week, the Association of American Railroads reports.

Loadings for the week ended June 16, 1956, totaled 801,431 cars, an increase of 21,474 cars or 2.8% above the corresponding 1955 week, and an increase of 94,194 cars, or 13.3% above the corresponding week in 1954.

U. S. Car Output Climbed 5.3% and Truck Building 6.2% in Latest Week

Automotive output for the latest week ended June 22, 1956, according to "Ward's Automotive Reports," advanced 5.3% in car building, topping the 3,000,000-unit mark for the year. Truck output also rose in the week to 6.2% above that of the preceding period.

Last week the industry assembled an estimated 106,139 cars, compared with 100,804 (revised) in the previous week. The past week's production total of cars and trucks amounted to 128,112 units, an increase of 6,621 units above the preceding week's output states "Ward's."

Last week's car output advanced above that of the previous week by 5,335 cars, while truck output rose the past week by 1,286 vehicles. In the corresponding week last year 151,249 cars and 29,271 trucks were assembled.

Last week the agency reported there were 21,973 trucks made in the United States. This compared with 20,687 in the previous week and 29,271 a year ago.

Canadian output last week was placed at 10,550 cars and 2,676 trucks. In the previous week Dominion plants built 9,582 cars and 2,613 trucks, and for the comparable 1955 week, 9,086 cars and 2,284 trucks.

Oil Demand During June-August Period Expected to Show a Seasonal Decline

Total demand for the next three months, that is, June through August, is expected to decline seasonally to 8,600,000 barrels daily, or 4% above the similar period a year ago. Gasoline demand which is included in the above figure is expected to average about 5% more than the same months of 1955, according to a survey prepared by the Independent Petroleum Association of America.

Total inventories of all oils at the close of May were about 3,500,000 barrels under last year's level with the gasoline excess over the 1955 total increased by 16,000,000 barrels. Fuel oil stocks continue under their 1955 level with residual fuel oil in California down more than 10,000,000 barrels.

Announced production allowables indicate June production will approximate 7,100,000 barrels daily. The July and August market for domestic crude oil, therefore, is expected to average about 6,840,000 barrels per day, the survey points out.

Business Failures Reverse Upward Trend the Past Week

Commercial and industrial failures declined to 245 in the week ended June 21 from 286 in the preceding week, Dun & Bradstreet, Inc., reports. However, they were considerably higher than the 205 occurring a year ago or the 215 in the similar week of 1954. Despite this marked rise from the past two years, the toll was 21% below the prewar level of 310 in 1939.

All of the week's decrease occurred in failures involving liabilities of \$5,000 or more, which fell to 197 from the 243 of last week; however, they remained above the 166 of this size a year ago. Small failures with liabilities under \$5,000, rose slightly the past week. Liabilities in excess of \$100,000 were incurred by 26 of the failing concerns as compared with 25 a week ago.

Wholesale Food Price Index Continued to Ease the Past Week

Continuing the downtrend of last week, the Dun & Bradstreet wholesale food price index fell to \$6.09 on June 19, comparing with \$6.14 the previous week and \$6.18 two weeks ago, the high point for this year. The current figure reflects a drop of 6.2% from the corresponding year-ago level of \$6.49.

Moving higher in wholesale price the past week were wheat, hams, bellies, sugar, coffee and cocoa. On the down side were corn rye, oats, barley, beef, lard, cottonseed oil, eggs, steers, hogs and lambs.

The index represents the sum total of the price per pound of 31 raw foodstuffs and meats in general use and its chief function is to show the general trend of food prices at the wholesale level.

Wholesale Commodity Prices Dipped Mildly Last Week Influenced By Heavy Rainfall

There was a further slight dip in the general level of prices last week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., closed at 287.49 on June 19, as compared with 288.17 a week previous. At this time a year ago the index stood at 273.35.

Weather conditions dominated movements in leading grains the past week. Early strength in wheat reflected a lack of rain and high temperatures which tended to restrict selling operations that ordinarily are heavy at this time. Another sustaining factor in the bread cereal was the possibility that export trade might be diverted to private commercial interests.

Prices turned lower towards the close influenced by reports of heavy rainfall over the week-end. Harvesting of new crop wheat is nearing completion in Oklahoma and Texas and is moving into Kansas.

Although producer marketings of corn were small, prices trended easier reflecting a lack of buying incentives and ample moisture for the crop. Purchases of grain and soybean futures on the Chicago Board of Trade two week ago rose to a daily average of 60,300,000 bushels, from 51,300,000 in the week preceding, and 34,000,000 last year.

Domestic business in hard wheat bakery flours remained slow despite some downward adjustment in prices late in the week. Buyers were content to draw upon balances in the belief that further declines will occur as pressure on new crop wheat supplies become more pronounced. Interest in other flours was slight with no indications of any broadening in demand.

Coffee prices spurted upward last week, reflecting active roaster demand for green coffee beans, a tight supply position of high quality coffee and the announcement that the Brazil Coffee Institute had advanced its minimum prices at which exports of coffee are permitted.

The cocoa market developed considerable strength aided by commission house and trade buying coupled with improved demand from Europe. The statistical position, however, remained bearish. Warehouse stocks of cocoa moved higher and totaled 376,134 bags, against 369,943 a week earlier and 238,744 a year ago. Lard prices worked lower largely reflecting weakness in vegetable oils. Hog prices also declined as market receipts continued well above year-ago levels and sales of fresh pork fell off sharply because of hot weather.

Cotton prices displayed an easier trend most of the week but turned higher at the close.

Early weakness reflected selling prompted by scattered mill curtailments, mostly favorable conditions for the new crop and reductions in the price of foreign cotton.

Results of the sale of cotton on June 12 by the CCC under the surplus disposal program were announced on June 18. A total of 1,567,278 bales were sold at a minimum price of 25 cents a pound, basis Middling 15/16-inch cotton. This was 2½ cents under the previous minimum at recent sales. Daily average consumption of cotton during May showed a slight decline from April.

Trade Volume Aided By Father's Day Purchases Rose Moderately Last Week and Was Noticeably Above Like Period a Year Ago

Extensive Father's Day sales promotions and hot weather stimulated consumer buying of men's summer apparel, sporting goods and air conditioners the past week.

Increased automotive sales moderately reduced dealer inventories of new passenger cars; however, automobile volume continued below that of a year ago.

Total retail trade expanded moderately this week, and noticeably exceeded that of the similar week last year.

The total dollar volume of retail trade in the period ended on Wednesday of the past week was 6 to 10% higher than a year ago, according to estimates by Dun & Bradstreet, Inc. Regional estimates varied from the comparable 1955 levels by the following percentages: New England and South +5 to +9; East and Middle West +7 to +11; Northwest +6 to +10; Southwest +4 to +8 and Pacific Coast +2 to +6%.

While wholesale orders for Fall apparel and household furnishings expanded last week, bookings in some textiles and food products were moderately reduced. Although total wholesale volume remained at the level of the previous week, it somewhat exceeded that of the similar week a year ago.

Department stores sales on a country-wide basis as taken from the Federal Reserve Board's index of the week ended June 16, 1956, increased 12% above those of the like period last year. In the preceding week, June 9, 1956, an increase of 9% was reported. For the four weeks ended June 16, 1956 an increase of 8% was reported. For the period Jan. 1, 1956 to June 16, 1956, a gain of 4% was registered above that of 1955.

Retail trade volume in New York City the past week rose 5 to 7% above the like week of 1955.

According to trade observers, special promotions, increased sales of home furnishings and vacation goods, mainly accounted for the rise.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period ended June 16, 1956, registered an increase of 13% above those of the like period last year. In the preceding week, June 9, 1956, an increase of 11% was recorded. For the four weeks ending June 16, 1956, a gain of 8% was recorded. For the period Jan. 1, 1956 to June 16, 1956, the index recorded a rise of 3% above that of the corresponding period in 1955.

British Columbia Debentures Offered

Bonds of three instrumentalities of the Province of British Columbia, Canada, aggregating \$40,000,000 were offered for public sale yesterday (June 27) by a nationwide underwriting group of investment firms headed jointly by Morgan Stanley & Co., Harris & Partners Limited, Inc. and Burns Bros. & Denton, Inc. The underwriting group comprises 79 firms. The issues are:

\$20,000,000 British Columbia Power Commission 3¼% sinking fund debentures series K, due 1986, priced at 98½ and accrued interest yield 3.835% to maturity.

\$10,000,000 Pacific Great Eastern Railway Company 3¼% sinking fund debentures series B, due 1981, priced at 98¼ to yield 3.86%.

\$10,000,000 British Columbia Toll Highways and Bridges Authority 3¼% sinking fund debentures series B, due 1976, priced at 98¼ to yield 3.84%.

Each of the three debenture issues is unconditionally guaranteed as to principal and interest by the Province of British Columbia. Principal and interest are payable in New York in United States dollars.

The last public sale in the United States of obligations of the Province of British Columbia was in 1952.

Sinking fund provisions for the debentures are calculated to retire each of the issues in its entirety by maturity. The debentures of each issue are non-callable before June 15, 1961. They are callable June 15, 1961 and thereafter at prices ranging from 102% to 100% after June 15, 1981 for the Power Commission bonds; 102% to 100% after June 15, 1977 for the railway bonds; and 102% to 100% after June 15, 1973 for the Toll Highways and Bridges Authority bonds.

Proceeds from the sale of the Power Commission debentures will be used to repay outstanding bank loans and for capital expenditures. The Commission supplies electric power to most of the Province except for the more densely settled areas such as the cities of Vancouver and Victoria. The Pacific Great Eastern Railway will apply the proceeds from its debentures issue to the repayment of outstanding bank loans which were incurred for construction purposes. The Railway is presently engaged in construction of northern and southern extensions aggregating 365 miles to its existing line so that, upon completion, the road will extend about 729 miles from Vancouver north to Dawson Creek and Fort St. John. This compares with the present rail route of about 1,255 miles from Vancouver via Edmonton to Dawson Creek, or a saving of 526 miles.

The Toll Highways and Bridges Authority will use the proceeds of the sale of its debentures to repay outstanding bank loans and for capital expenditures in connection with construction of additional toll bridges. The Authority at present owns and operates only one bridge, namely, the First Narrows (Lion's Gate) Bridge across Burrard Inlet from Vancouver to North Vancouver.

Eastman, Dillon Branch

LAS VEGAS, Nev. — Eastman, Dillon & Co. has opened a branch office at 107 South Third Street under the management of Dwight H. Gravett.

Joins Wulff, Hansen

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, Calif. — James D. Hansen has joined the staff of Wulff, Hansen & Co., Russ Building.

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Investment Policy Implications While at the Crossroads

asures could be operative again before another year has passed if the business improvement materializes. Essentially, any firm judgment on this possibility must be reviewed frequently because in this area we are trying to guess what will be the attitude of business men and consumers six to nine months from now when they will be looking not at the present situation but at a new set of factors operating in a changed environment.

The Longer-Term Outlook

In thinking about the background for investment policy over the longer term, we again face a choice between the points of view of the more orthodox thinkers and the dynamic American economy enthusiasts. The choice is especially important because the level of interest rates, after all, is not established by precise relationships to the supply and demand of funds. Custom, contractual relationships, governmental policies in the realm of money and credit, and just plain "horse-trading" all make important contributions to the interest rate structure. The duration of a rising trend in interest rates, for example, may be quite important. A period of tight money which lasts for two years will undoubtedly produce a higher level of interest rates than if the same forces operate for only one year. It is necessary, therefore, in looking at the longer-term outlook to reach a judgment on whether we are likely to have persistent, as contrasted with intermittent, bursts of demand for long-term capital funds in excess of the regular savings flow.

More specifically, if we assume that the next decade will be characterized by a well-sustained and expanding demand for funds, we should logically expect that the very persistence of these pressures would result in an appreciably higher level of interest rates by the end of the period than if the capital markets had been characterized by swings of short duration between tightness and ease as has been the case since the Spring of 1951. In my opinion, there are a good many reasons why, over the longer term, we should anticipate rather frequent and sharp changes in interest rates rather than protracted trends in either direction. Especially, I want to emphasize five of these reasons:

Reasons Advanced for Sharply Fluctuating Interest Rates

(1) Through the application of credit restraint, the principal thrift institutions, with perhaps the partial exception of the savings and loan associations which have recourse to the Federal Home Loan Banks, find it necessary to operate substantially on a cash basis. This is unlike the situation of the fairly recent past. In 1948, for example, the pegging of government bond prices provided an almost indefinite expansibility of the investment funds available in the thrift institutions. In 1954, bank purchases of government securities made funds freely available. In 1955, the expansion of mortgage warehousing facilities provided "stretch" to the capital markets. During this year, however, we have seen that almost all of the elasticity can be removed if credit policy is directed to that end. Putting these institutions on close to a cash basis inevitably means that the range of fluctuations in interest rates will be magnified.

(2) In the area of the corporate demand for funds, we are all conscious of the tremendous amount of internal financing done through depreciation and retained earnings, with the result that corporations have to seek external sources of funds only during peak periods when heavy capital outlays happen to coincide with a build-up of inventories and receivables. When such demands expand by 10% beyond internal sources of funds, they may readily cause a 50% increase in the actual demand on the capital markets. This marginal effect has, of course, been a primary influence on the bond market this year. An especially drastic decline in the corporate demand for external funds would, of course, occur in a business reversal.

(3) Not just in this country but throughout the world, the advocates of a flexible credit policy are apparently winning the debate of the last quarter-century. The idea that easy money is the answer to all problems under all circumstances has been discredited. The case for the application of credit restraint when inflationary pressures are rising has been strongly supported by the experience of the postwar years. More than for many a long year, there is agreement among economists, government officials, and men in finance that a wide range of flexibility in credit policy is both desirable and effective as a contributor to the goal of economic stability. We are on notice then that we should think in terms of monetary and credit measures which will be rather radically changed to meet different situations. The authorities will be prepared really to tighten money at one time and to ease it drastically at another. This will have the effect of exaggerating the fluctuations in interest rates which may normally result from changes in the basic supply and demand of funds.

(4) It is evident that the long-term financing of the consumer will continue to be of increasing importance as compared with the financing of the producer. If one takes into account home mortgage financing and all aspects of consumer credit, it is clear that in the years ahead, particularly when we come into the active period of family formations during the early 1960's, consumer financing in this broad sense is going to bulk larger and larger in the capital markets. If so, then the alleged tendency for business financial planning to be on a longer term and more stable basis is not so very significant. On the demand-for-funds side of the equation, we must expect that consumers will vary their plans drastically from time to time as they become more or less willing to go into debt depending upon their amount of confidence in the prospects for employment and income. For this reason, the aggregate demand for investment funds might prove to be even less stable than in the past.

Institutionalized Savings

(5) Thinking simply in terms of the supply and demand of funds in the capital market, we conclude that interest rates are bound to fluctuate because the demand for funds as represented by longer-term capital requirements varies much more widely than the relatively sluggish savings flow. As the savings process has become much more institutionalized over the years, as a greater proportion of the savings have taken on contractual aspects, and as the elements of custom and

habit have become of increasing importance, we should logically suppose that the stable characteristics of the savings flow will continue and perhaps even be accentuated. The combination of more ups and downs in the demand for funds, as contrasted with at least the same degree of stability in the supply, represents a strong additional reason for anticipating fairly wide fluctuations in interest rates.

Based on these and related considerations, it is my firm belief that in appraising the longer-term outlook we should be prepared in the development of investment policy to deal with a pattern of interest rates which fluctuates widely over comparatively short periods of time. The change from extreme ease in the Summer of 1954 to the very tight situation which emerged in the Spring of this year might prove to be fairly typical of the rapidity and range of interest rate fluctuations during the years ahead. This, of course, assumes that, as I am strongly convinced, the growth and progress of this country will follow an irregular, fluctuating path rather than a straight line projection from here through a new era to the most optimistic computations for the year 1965.

Implications for Investment Policy

By way of summary, what are some of the implications for portfolio management policy of the conclusions which I have presented? In discussing the near-term outlook, I have suggested that a period of less tightness in the money market is in prospect over the next several months, but that we should be alert to the possibility of a resurgence in business around the turn of the year which might cause a renewal of the upward drift in rates. The value of owning some really short-term securities like Treasury bills and certificates is apparent under these circumstances. Also, there is no particular reason to become committed far ahead on mortgage loans. Common stocks are such an admirable long-term investment medium for a savings bank that I would enthusiastically encourage their inclusion in portfolios. The case for orderly accumulation in a program of dollar cost averaging is, however, as strong and as persuasive as ever.

Portfolio Liquidity and Maneuverability

In thinking about investment policy over a longer period such as the next several years, I have argued that we should be prepared for wide or even violent swings in capital market conditions without necessarily any persistent trend in any one direction. This means that flexibility will be of great importance and that we should emphasize liquidity and maneuverability in the portfolio as a means of accomplishing major shifts to different types of loans and investments. The last few years should have convinced us that only cash and really short maturities of high grade securities provide this flexibility in truly reliable form.

Finally, on the subject of policy determination in setting rates of dividends to depositors, I would emphasize the need for flexibility and maneuverability consistent with the preceding thoughts on investment policy. If it is true, as I have argued, that we should become accustomed to wider fluctuations in the earning power of our institutions, it is good sense, good logic, and good judgment to introduce much greater flexibility in the payment of dividends to depositors. The use of extra dividends is appropriate to avoid too frequent adjustments in regular rates. Personally, I am even more enthusiastic about the use of split dividends under which a higher rate is paid to the depositor who

has been on the books for a longer period. In this way, the true saver is rewarded more closely in accordance with his contribution to the enterprise, and there is an absolute minimum of competition for "hot" money between individual institutions. By varying the differential in rate between the new and the old depositor, it is possible to reflect much more accurately changing patterns of earnings and changes in the flow

of funds. There are, of course, mechanical problems in handling a split rate; but I can assure you from actual experience that they are soluble with modern accounting equipment. In any event, the trouble is a small price indeed to pay for about the only realistic and far sighted answer I have seen to the emergence of rate competition in some of its least attractive aspects.

Continued from page 6

Railroad Financing: 1957-66

residence. The original cost of a dwelling that has been sold is carried forward as the cost of the replacement dwelling. Another theory has to do with the replacement of rail in track—replacement in kind. Thus, the cost of the old rail is carried forward on the books as the investment in rail regardless of how many times it is replaced or what is the cost of the replacement rail. A subsequent charge is made in the investment account only to account for the added cost resulting from increasing the weight of the rail. I can see no fundamental difference between replacing rail which cost \$25 a ton in 1905 with rail which cost \$96 a ton in 1955 and replacing freight cars under similar circumstances.

It seems to me that the examples of the residence and of the rail indicate a principle that so long as funds remain in the enterprise, dedicated to its public service, there has been no realization of a profit merely because the physical pieces of rail or residence, or even freight cars, have actually turned over.

Depreciation vs. Replacement Accounting

This approach involves the relative merits of depreciation accounting versus replacement accounting. It seems to me that depreciation accounting is premised upon a stable price level and that it may well be less useful than a replacement accounting when price levels change considerably, as they have in recent years.

To try to bring to this concept some figures we can recognize, suppose that the railroads wished to buy 80,000 freight cars a year for the next 10 years and that the average difference between the depreciation base and replacement cost exceeded \$5,000 per car. Expensing this difference for tax purposes would mean at least \$400 million a year less taxable income. The cash assistance to the railroads' replacement program would be more than \$200 million yearly, or more than \$2 billion over the 10 years. Extend the theory to replacements other than freight cars and you will swell the potential \$2 billion to an even more important aid.

Accelerated Amortization

Now for a closer look at accelerated amortization, which is the only device so far applied to the railroads. Let everyone understand (1) that the \$20 billion program is for replacement; (2) that each replacement costs from 2 to 5 times as much as the railroads have been permitted to accumulate before Federal income taxes in depreciation reserves; and (3) that accelerated amortization actually made a great difference in recent years. The freight car orders that piled in at an unprecedented rate as the authorization expired last December demonstrated conclusively that accelerated amortization was the very life blood of the drive by government to increase the car fleet.

The total of purchases under the tax aid of accelerated amortization for the years 1950-55, inclusive, amounted to \$4,936,057,000

for diesels, freight cars, other equipment, yards and signals, and road property.

It is a serious question whether the railroads would, or indeed could, have borrowed the additional \$1,440,000,000 which I estimate to be the ultimate tax deferment by accelerated amortization in the period 1950-55.

No Less Imperative

The problem of the future is even more serious. The striking economies of diesels are here—not ahead. The economies of new cars, new yards, line changes and signals may be less impressive but no less imperative!

The railroads are not alone in searching for the solution of this problem of financing higher cost replacements. For example, the Chairman of U. S. Steel, Mr. Roger Blough, has forcefully stated the urgency of a more realistic depreciation law for his industry's tremendous needs.

I hope that these stirrings of my mind will stimulate your thinking and, through you, the thinking of a widening circle. The questions are not long-haired. They couldn't be more practical. The answers to these questions are basic to the long-term planning which we must do.

I leave you with my conviction that the national interest requires a prompt and searching study of tax or other relief to assure the atmosphere for financing a railroad plant adequate 10 years from now—adequate for the greater population and national product and adequate for national defense.

Gearhart & Otis Offers Sessions Clock Shares

Gearhart & Otis, Inc., New York City, on June 26 publicly offered 299,950 shares of common stock of The Sessions Clock Co. at par (\$1 per share).

The Sessions company intends to add the net proceeds to working capital. It was incorporated in Connecticut in 1882, and its principal offices and plant are located in Forestville, Conn. The company has entered the field of radio timers and industrial timers, in addition to expanding its line of electric clocks and movements, and carrying on varying amounts of work on defense contracts.

Giving effect to the new financing, the Sessions company will have outstanding 1,181,200 shares of common stock (par \$1) and 50,000 shares of 7% cumulative convertible preferred stock (par \$5).

For the three months ended March 31, 1956, sales totaled \$1,192,863 and net loss was \$122,137, while for the year ended Dec. 31, 1955, sales amounted to \$6,338,380 and net loss was \$372,590.

Frederick T. Hepburn

Frederick T. Hepburn passed away June 15th at the age of 83 following a long illness. Mr. Hepburn in the past was President of H. D. Walbridge & Co. and of the Electric Bond and Shares Companies.

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The Stock Market Outlook And the Psychological Factor

have been so widely publicized that they are largely discounted in stock market prices.

I can not worry about the economic situation in this country with the entire population working and planning to better itself and having the means and know-how to succeed.

Technical Market Weakness and Higher Market

The technical situation in the stock market itself is paramount. I view it as weak. Weaker, I think, than at any time since 1929. However, I may be expressing an old fashioned and soon-to-be-outdated point of view. My definition of a weak technical position is when a preponderance of stocks are held in small and inexperienced hands and when the proportion held on credit is relatively high.

The New York Stock Exchange itself has recently released figures suggesting that the number of individual stockholders in the country has reached a new high at eight million. Many of these new stockholders are both individually small and inexperienced. I sense their inexperience when I get letters or telephone calls after a small percentage decline in the stock average, asking about the market in panic and telling me "they" can not let the market drop "another day" like the weakness just occurring. If these people knew that stocks—all stocks—are likely from time to time to lose at least half their gains, they would either not believe me or think themselves misled.

I know they are small when I see the unparalleled amount of "odd lot" buying as reported officially in the papers. The real difference as compared to 1929 is the credit situation. Brokers' loans—and "non-purpose" loans—are as high as they ever were, excepting 1929. Federal Reserve margin requirements prevent them from reaching those totals. But before you get bearish, please recall I admitted my point of view may be old fashioned and outdated. I said a "preponderance" of stocks were weakly held. And that the proportion held on credit was "relatively" high.

It is my opinion that the correct way to look at this technical situation is that it is not only weak but likely to get weaker as the market goes higher.

Back in March, 1954, I wrote a cover feature story for "The American Magazine" on "How to Build Your Family Fortune" and stated that perhaps 17 million families had the means to become shareowners. At that time the general estimate of the total number of stockholders was only 6,500,000—one and a half million less than today. So perhaps we have a long way to go.

Psychological Situation Favors Higher Stock Prices

The psychological aspect, both from an economic and technical view, is in my opinion the foremost influencing factor. Economists can figure the probabilities of next year's business but individuals create the actualities. We are constantly upsetting such forecasts. We buy MORE than we should—or we save LESS—or vice versa. Or we change our spending direction. We DON'T buy the new car the seers said we would but instead spend twice as much on our vacation in the old bus. That is why I think that practical business forecasting must be heavily weighted with the psychological possibilities, and not confined to the statistical.

The same is doubly true from a stock market point of view. If you run down the reasons for the widest changes in stock prices you will find these changes do not reflect changes in earnings or dividends nearly as much as changes in appraisal. I can tabulate many stocks that have enjoyed sensational advances since the Fall of 1953. Their earnings are up and so are their dividends but the main factor has been the much greater increase in the price-earnings ratio that has been paid by today's buyers. This willingness to pay a high price-earnings ratio or accept a lower income yield is in some degree a reflection of fundamentals but in a major degree a psychological measure of investor confidence.

Believe me, investor (and speculator) confidence ebbs and flows at a far greater rate than the ebb and flow of fundamental investment values.

I feel the psychological situation today favors more investors and higher stock prices.

In conclusion, WHAT to buy is perhaps more important than WHEN to buy. But before passing onto that subject, I might add a few words on the current stock price level. I think the price of a stock is fixed more by the psychological view of what people collectively will pay for it than by any statistical appraisal of what it might theoretically be worth. This statistical appraisal resembles the economists' business appraisal, both in its determination and in its inaccuracy.

It has one possible value and I am not even sure it has that. The possible value I had in mind was that it gave the investor an indication of relative cheapness or dearthness. This common denominator suffers because it is too often based more on the past than on estimates of the future. It has the danger of luring investors into shares that SEEM cheap and keeping them out of shares that APPEAR dear. The seemingly cheap shares may just be no good. And the apparently overpriced shares may be worth a great deal more eventually than appears on the surface. I am more inclined to test unusual apparent cheapness or dearthness and see if I can uncover a hidden reason for the situation which is reflected in the market but not as yet in the figures.

If I were forced for example to invest blindly I would rather buy the 10 stocks yielding the least than the 10 yielding the most.

Do Not Take Anything for Granted

Never take anything for granted. We do not know how high is high or how low is low. Many potential profits were lost on the way up in 1929 because people took it for granted stocks could not go any higher. But they did. Fortunes were lost on the way down in 1930, 1931 and 1932 because people took it for granted they "must" be on bottom.

It is not factual to think that what goes up must come back down or vice-versa.

If my memory serves me right, it was about 35 years ago when I sold Goodyear Tire & Rubber 8% first mortgage bonds under par to my clients. Each and every bond was payable not at 100 but at 120. Today, they have unsecured promissory notes outstanding due in 1964 with a 2 3/4% coupon. It happens that my last field trip included a visit to Goodyear in Akron only a few days ago and I am sure that President Thomas would have plenty of sleepless

nights if he ever expected to pay 1921 interest rates for his borrowed capital. Neither Goodyear's credit nor going money rates ever hit that low level in my 35 years in Wall Street. The investor who thought the bond market "high" when income yields started to decrease below that to which he was then accustomed has been wrong many years.

Trend, to me, is always far more important than price. Now as to what to select today. Buying stocks in June 1956 is for most of us trying at least to picture the situation six months hence in December 1956 or January 1957. The capital gains taxes force us to do that.

Issues Currently Attractive

From an investment point of view, the group that offers the most current attraction in my view is the oils. The growth trend of the best managed oil companies is extremely strong, yet their market valuation is still relatively moderate. The future in oils looks as bright as the present and the past. Their "cash flow" situation is outstandingly favorable. The choice of issues is a wide one, but to mention a few, there is Standard Oil of New Jersey, Phillips Petroleum, Sinclair, TXL Oil and, in the gas field, American Natural Gas. These stocks, of course, are each in a different category.

Another attractive group is the chemical group. I would select Dow as currently outstanding and might mention Union Carbide and American Cyanamid.

The motor group is depressed and I think has reached a buying point and a turn. I like all the Big Three: Chrysler, General Motors and Ford. These stocks, incidentally, are different especially in leverage.

I like the rail group, especially Santa Fe, Southern Railway and New York Central. The latter offers an unusual opportunity.

The business of the leading aircraft manufacturers can probably be forecast with greater accuracy than almost any major industry. Good stocks in this group are United Aircraft, Boeing and North American Aviation.

Among miscellaneous issues are International Nickel, Caterpillar Tractor, Goodyear Tire, W. R. Grace, Sylvania and Alleghany Corporation.

Four With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Ben E. Ambrose, Richard H. Griffin, Robert M. Kommerstad and John G. Menikoff are now with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

Two With King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—John S. Robinson and Harold J. Todhunter, Sr. are now with King, Merritt & Co., Inc., 1151 South Broadway. Mr. Robinson previously was with McCormick and Company.

Morgan Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Carl W. Garrett is now connected with Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange.

Joins Sutro & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, Calif.—Robert L. Samuels is now with Sutro & Co., 275 North Canon Drive.

Brooks D. Weber

Brooks D. Weber passed away June 14th following a long illness. Mr. Weber had been associated with First California Company and had been a partner in Davies & Co.

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Outlook for Mortgage Lending And General Business Conditions

economy over those years, which made not only the funds but the mortgages available in which to invest them.

General Business Situation

It now appears that the national economy, in the words the economists love so well, has levelled off somewhat, in fact, has even declined in some directions. One of those directions is in the construction of housing. Your estimate of the immediate national economic future during the balance of 1956 may be formed by the economist you read and in whom you believe, however, the sum total of the consensus of these experts seems to be that despite lagging automobile sales, declining housing starts, a poor farm income situation, and the tendency of industry to accumulate inventories to a point that may be too high, the probability is that business will improve towards the latter part of the year—again, follow your favorite financial adviser and not me!

This is based to a large extent on the fact that the industrial production, investment in plant expansion, total employment and gross national product have shown relatively little change, and that while there may be some further adjustments in store, there is so much underlying strength in the current situation that it is difficult to foresee any cause for excessive fear—only the maintenance of constant caution.

We must take into account the fact that the Federal Reserve Board's action in tightening the money market may be eased as the effectiveness of this action becomes more apparent and criticism mounts.

In any event, it is apparent that mortgage money is not as readily available at the present as it has been over most of the last ten years, and the reasons for this situation are also fairly apparent. The supply of mortgage money in New York is dependent upon the factors that affect the economy, and therefore, the money supply of the whole country. When a savings banker is offered government bonds or excellent corporate bonds at advanced yields, these investments come into competition with prime mortgage loans. Mortgage loans in New York compete with FHA or VA guaranteed loans in other parts of the country offered at high yields, and which are affected by the general tightness of money caused by the heavy demands of industry, other borrowers, plant expansion and the demands of instalment credit. The last few months have also witnessed a slower than usual accumulation of savings, which seems to be caused more by comparatively large withdrawals than by any noticeable slowing up in deposits. The rate of new mortgage acquisitions is slowed down by these factors as well as by the fact that there are sizable future commitments already on the books of many of the banks.

"Loaned Up" Banks Need More Deposits

Mortgage interest rates, as a result of these conditions have firmed considerably, and have led the banks to be somewhat more selective in their choice of risks. Moreover, it appears that the money that is available at this time is being confined more to the local market, than the secondary out of state market.

In any event, mortgage money seems to be tighter than that of

1951 when the peg was removed from the government bond market, or of 1953, when the 3 1/4% issue of government bonds was put out by the national treasury.

It is obvious from the foregoing that the purchase of mortgages by the savings banks has been financed largely out of deposit gains, and it is probably true that any extraordinary amount of buying in the future will have to depend upon the same factor. Increasing deposits are generally an indication of a healthy economic situation, so that the future of the mortgage market insofar as the savings banks are concerned, depends in a large measure upon the state of business.

If deposits should fail to increase, however, it is evident that it would be quite impossible for the banks to continue to make mortgages at the rate of the last few years. It must be pointed out that the mortgage account now represents 61% of assets and also indicates that some of the institutions are well "loaned up" and that future commitments depend upon (1) deposit increases; (2) payoffs; and (3) other increases in assets. If we put aside the variable factor of deposits, we find that the latter two sources provided the New York State savings banks in 1955 with about a billion dollars to put in new investments. This amount provides a substantial basis for future mortgage business, but it is less than half the amount that the savings banks have invested in mortgages in each of the last two years. This fact is a further indication that the continuation of the high ratio of mortgage investment over the past few years is mainly dependent upon whether deposits increase as rapidly in the future as in the past.

It is reported that home starts are down to a seasonally adjusted rate of 1,100,000, off about 20% from last year, and it may well be that due to increased building costs as well as other factors, certain building projects may be postponed for the time being.

Optimistic of Short-Term Future

If the law of supply and demand once more asserts itself, there is the probability that the reservoir of loanable funds could again build up and we could have in the not too distant future a freer mortgage market. But how active, will depend on the factors set forth, so watch these and you may have the indication you are looking for.

I am inclined to feel more optimistic than pessimistic about the reasonably short-term future but I do not wish to assume the role of a prophet. If you want a more positive expression of opinion as to the shape of things to come, I can only again refer you to your favorite prognosticator.

With D. D. Creger

(Special to THE FINANCIAL CHRONICLE)

WHITTIER, Calif.—Sidney A. Simon has become associated with J. D. Creger & Co., 124 North Bright Avenue.

Bache Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla.—Frank Morris is now with Bache & Co., 1 Lincoln Road Building.

Robert A. Gardner

Robert A. Gardner, partner in Mitchell, Hutchins & Co., Chicago, passed away June 21st at the age of 66 following a heart attack.

Securities Now in Registration

★ INDICATES ADDITIONS
SINCE PREVIOUS ISSUE
● ITEMS REVISED

★ Abbott Laboratories, North Chicago, Ill.

June 22 filed \$540,000 of participations in the corporation's Stock Bonus Plan, together with 30,000 shares of common stock which may be purchased pursuant to the Plan.

Abundant Uranium, Inc., Grand Junction, Colo.

Feb. 23 (letter of notification) 3,000,000 shares of common stock (par one cent). Price—10 cents per share. Proceeds—For mining expenses. Office—319 Uranium Center, Grand Junction, Colo. Underwriter—Ralph M. Davis & Co., Grand Junction, Colo.

● Aero Supply Mfg. Co., Inc.

June 4 (letter of notification) 103,903 shares of common stock (par \$1) to be offered to stockholders of record June 25, 1956, on a basis of one new share for 4½ shares held; rights to expire on July 20, 1956. Price—\$2 per share. Proceeds—For relocating machinery and equipment in plant, additional equipment and working capital. Office—611 West Main St., Corry, Pa. Underwriters—Henry M. Margolis and Leo A. Strauss, directors of the company.

Allied Oil & Industries Corp.

June 14 (letter of notification) 150,000 shares of capital stock (par 10 cents). Price—\$2 per share. Proceeds—For the acquisition of oil and gas leasehold interests and working capital. Office—403 Wilson Bldg., 2601 Main St., Houston, Texas. Underwriter—Muir Investment Corp., San Antonio, Texas; D. N. Silverman & Co., New Orleans, La.; Texas National Corp., San Antonio, Texas; Charles B. White & Co., Houston, Texas; and Reed and Sloan Co., Dallas, Texas.

★ Altec Companies, Inc., New York (7/16-18)

June 26 filed 100,000 shares of capital stock (par \$1), of which 35,000 shares are to be offered for account of the company and 65,000 shares for certain selling stockholders. Price—To be supplied by amendment. Proceeds—To be advanced to Altec Lansing Corp., a wholly-owned subsidiary, to be used for its expansion program. Underwriter—Dean Witter & Co., San Francisco and New York.

● American Frontier Corp., Memphis, Tenn.

Feb. 15 filed 175,000 shares of class A common stock (par \$1). Price—\$10 per share. Proceeds—Together with other funds, to purchase 1,000,000 shares of common stock (par \$1) of American Frontier Life Insurance Co. Underwriter—None. Statement effective June 19.

American Horse Racing Stables, Inc.

May 11 (letter of notification) 3,000,000 shares of common stock. Price—At par (10 cents per share). Proceeds—For organizing and operating a racing stable. Office—Virginia and Truckee Bldg., Carson City, Nev. Underwriter—Columbia Securities Co., Inc. of California, Beverly Hills, Calif.

American Insurers' Development Co.

Feb. 10 filed 400,000 shares of common stock (par \$1). Price—\$2.50 per share. Proceeds—To expand service business. Office—Birmingham, Ala. Underwriter—Odess, Martin & Herzberg, Inc., Birmingham, Ala.

● American Machine & Foundry Co.

June 1 filed \$10,897,000 of 4¼% subordinated debentures due July 1, 1981, being offered for subscription by common stockholders of record June 27, 1956, at the rate of \$100 of debentures for each 25 shares of stock then held; rights to expire on July 11. Price—At par (flat). Proceeds—To reduce bank loans and for working capital. Underwriter—Union Securities Corp., New York.

American Tar & Turpentine Co., Inc.

June 5 (letter of notification) \$200,000 principal amount, 20½-year 5½% subordinated debentures due May 15, 1976 and 20,000 shares of common stock (no par) to be offered in units of 10 shares of common stock and \$100 of debenture. Price—\$110 per unit. Proceeds—For installing a new plant in Winfield, La. Office—219 Carondelet St., New Orleans, La. Underwriters—Scharff & Jones, Inc., and Nusloch, Baudean & Smith, Inc., both of New Orleans, La.

American Telephone & Telegraph Co. (7/10)

June 18 filed \$250,000,000 of 34-year debentures due July 1, 1990. Proceeds—For advances to subsidiary and associated companies; for investments; for extensions, additions and improvements to properties; and for general corporate purposes. Underwriter—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Halsey, Stuart & Co. Inc. (jointly); Morgan Stanley & Co. Bids—Expected to be received up to 11:30 a.m. (EDT) on July 10.

Arden Farms Co., Los Angeles, Calif.

June 15 filed \$4,099,300 of 5% subordinated debentures due July 1, 1986 (convertible until July 1, 1964) and 63,614 shares of common stock (par \$1). The debentures are to be offered for subscription by preferred stockholders at the rate of \$10 principal amount of debentures for each preferred share held, while the common shares are to be offered for subscription by common stockholders at the rate of one share for each 10 shares held. Price—To be supplied by amendment. Proceeds—To repay bank loans. Underwriter—None.

Arizona Public Finance Co., Phoenix, Ariz.

Sept. 16 filed 78,006,081 shares of common stock to be offered for subscription by holders of life insurance policies issued by Public Life Insurance Co. Price—20 cents per share. Proceeds—For working capital. Underwriter—None, sales to be directly by the company or by salesman of the insurance firm.

● Armstrong Rubber Co. (7/10)

May 31 filed \$9,250,000 of convertible subordinated debentures due June 15, 1971. Price—100% of principal amount. Proceeds—Together with \$7,750,000 to be borrowed from insurance companies, for construction or acquisition of new plants and equipment and for working capital. Office—West Haven, Conn. Underwriter—Reynolds & Co., Inc., New York.

★ Asotin Telephone Co., Asotin, Wash.

June 21 (letter of notification) 102 shares of common stock and 500 shares of 5½% cumulative preferred stock. Price—At par (\$50 per share). Proceeds—For modernizing and improving telephone plant. Underwriter—None.

Associated Grocers, Inc., Seattle, Wash.

April 20 filed 5,703 shares of common stock; \$2,000,000 of 25-year 5% registered convertible debenture notes; and \$1,500,000 of 5% coupon bearer bonds. Price—Of stock, \$50 per share; and of notes and bonds, 100% of principal amount. Proceeds—To reduce bank, mortgage loan, or other indebtedness; and for working capital. Underwriter—None.

Atlanta Gas Light Co. (7/11)

June 20 filed 88,280 shares of common stock (par \$10) to be offered for subscription by common stockholders of record July 10, 1956 on the basis of one new share for each 10 shares held; rights to expire on July 31, 1956. Price—To be supplied by amendment. Proceeds—To reduce bank loans and for new construction. Underwriters—The First Boston Corp., New York; and Courts & Co. and The Robinson-Humphrey Co., Inc., both of Atlanta, Ga.

Atlanta Gas Light Co. (7/17)

June 20 filed \$5,000,000 of first mortgage bonds due 1981. Proceeds—To reduce bank loans and for new construction. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; The First Boston Corp.; Dean Witter & Co. and Lazard Freres & Co. (jointly). Bids—Expected to be received up to 11 a.m. (EDT) on July 17 at 90 Broad St., New York 4, N. Y.

Atlantic Oil Corp., Tulsa, Okla.

April 30 filed 2,000,000 shares of common stock (par \$1). Price—\$1.50 per share. Proceeds—For working capital and general corporate purposes. Underwriter—To be named by amendment.

Atlas Credit Corp., Philadelphia, Pa.

June 11 filed \$600,000 of 6% convertible subordinated debentures due June 15, 1968. Price—100% of principal amount. Proceeds—To retire indebtedness of the company to its affiliates for money borrowed for working capital. Underwriter—Name to be supplied by amendment. George A. Searight, New York, underwrote stock offering in December, 1954.

Atlas Corp.

Feb. 28 filed 9,890,095 shares of common stock (par \$1) to be issued pursuant to an agreement of merger with this corporation of Airfleets, Inc., Albuquerque Associated Oil Co., RKO Pictures Corp., San Diego Corp. and Wasatch Corp. on the following basis: Four shares for one of Atlas common; 2.4 shares for one share of Airfleets common; one share for each share of Albuquerque common; four shares for each 5.25 shares of RKO common; 2.4 shares for each share of San Diego common; 13 shares for each share of Wasatch cumulative preferred; and 1.3 shares for each share of Wasatch common. The registration statement also covers 1,250,000 shares of 5% cumulative preferred stock (par \$20) which will become issuable upon and to the extent that shares of common stock are convertible into shares of preferred stock. Stockholders approved merger on May 24. Statement effective April 20.

Automation Industries Corp., Washington, D. C.

May 11 filed 179,000 shares of common stock (par \$1). Price—\$5.25 per share. Proceeds—For working capital and other corporate purposes. Underwriter—None. Harry Kahn, Jr., of Washington, D. C., is President and Treasurer.

★ Baldwin Laboratories, Inc.

June 19 (letter of notification) 190 shares of common stock. Price—At par (\$100 per share). Proceeds—For operating expenses. Office—2506 Rockbrook Road, Omaha, Neb. Underwriter—None.

Bennett-Ireland, Inc.

June 8 (letter of notification) \$285,000 of 20-year 6% convertible debentures due July 1, 1976, of which \$10,000 principal amount are to be issued in exchange for a like amount of 6% debentures due 1973. Price—100% and accrued interest. Proceeds—For working capital. Business—Fireplace units, etc. Office—Norwich, N. Y. Underwriters—Mohawk Valley Investing Co., Inc., Utica, N. Y., and Security & Bond Co., Lexington, Ky.

Beta Frozen Food Storage, Inc.

May 14 filed 15,000 shares of preferred stock (par \$50) and \$100,000 convertible debenture bonds. Price—At par. Proceeds—For capital expenditures and working capital. Office—Baltimore, Md. Underwriter—None. William H. Burton is President of company.

Big Horn Mountain Gold & Uranium Co.

Feb. 23 (letter of notification) 9,300,000 shares of common stock (par one cent). Price—Three cents per share. Proceeds—To be used for exploratory work on mining mineral properties. Office—1424 Pearl Street, Boulder, Colo. Underwriter—Lamey & Co., Boulder, Colo.

Birney Oil & Uranium Co., Denver, Colo.

April 6 (letter of notification) 1,000,000 shares of class A common stock (par five cents). Price—10 cents per share. Proceeds—For mining expenses. Office—762 Denver Club Bldg., Denver, Colo. Underwriter—Birkenmayer & Co., Denver, Colo.

● Canadian International Growth Fund Ltd. (7/17)

June 15 filed 625,000 shares of common stock. Price—To be supplied by amendment. Proceeds—For investment. Investment Advisers—Van Strum & Towne, Inc., New York, and Mutual Funds Statistical Surveys Ltd., Montreal, Canada. Underwriter—Hayden, Stone & Co., New York.

● Cary Chemicals Inc., Milltown, N. J. (7/3)

June 5 filed \$2,300,000 of 6% first lien bonds due 1976 and 230,000 shares of common stock (par 10 cents) to be offered in units of \$500 of bonds and 50 shares of stock. Price—To be supplied by amendment. Proceeds—\$1,150,000 to be applied to cost of new polyvinyl chloride resin plant; \$138,000 to interest on bonds during the first year; \$230,748 for liquidation of mortgage on present plant; \$33,000 for retirement of outstanding preferred stock; \$10,352 for purchase of common stock; and about \$447,400 for working capital. Underwriters—Lee Higginson Corp. and P. W. Brooks & Co., Inc., both of New York.

★ Champion, Inc., Iron Mountain, Mich.

June 22 (letter of notification) 2,000 shares of common stock to be offered first to stockholders. Price—At par (\$100 per share). Proceeds—For working capital. Office—108 East Ludington St., Iron Mountain, Mich. Underwriter—None.

Chesapeake Shores Country Club, Inc.

May 29 filed 5,000 shares of common stock, of which it is the company's intention to offer for sale at this time only 2,500 shares. Price—At par (\$300 per share). Proceeds—To construct and operate a recreation resort. Office—Upper Marlboro, Md. Underwriter—None.

C. I. T. Financial Corp.

May 17 filed \$75,000,000 of debentures due June 1, 1971. Price—To be supplied by amendment. Proceeds—Primarily for furnishing working funds to company's subsidiaries. Underwriters—Dillon, Read & Co. Inc., Kuhn, Loeb & Co. and Lehman Brothers, all of New York. Offering—Temporarily postponed.

Colonial Utilities Corp.

June 4 (letter of notification) \$109,245.50 principal amount of 6% convertible subordinate debentures, due June 1, 1966 to be offered for subscription by holders of common stock at the rate of \$1.30 for each share held. (Each \$100 of debentures is convertible into 18 shares of common stock.) Price—At 100% of principal amount. Proceeds—For working capital, construction, purchase of Dover plant, etc. Office—90 Broad St., New York, N. Y. Underwriter—None.

Colorado Springs Aquatic Center, Inc.

June 5 filed 500,000 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—For swimming pool and related activities, bowling alley, site preparation including parking, and land cost (\$95,000). Underwriters—Arthur L. Weir & Co., Colorado Springs, Colo.; and Copley & Co.

Columbia General Investment Corp.

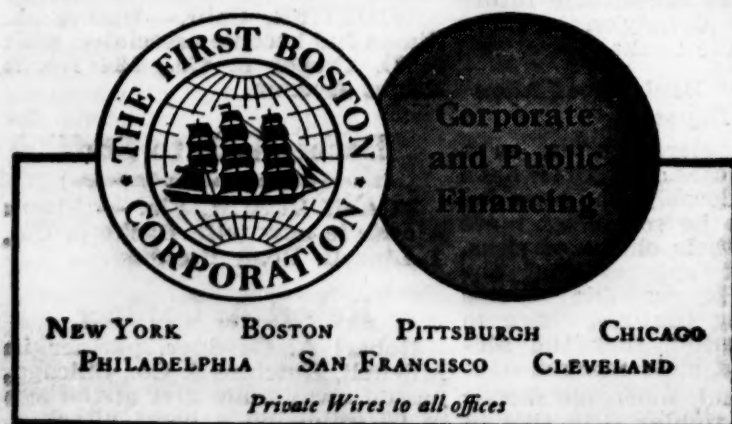
March 29 filed 100,000 shares of common stock (par \$1) to be offered for subscription by stockholders only. Price—A maximum of \$4.50 per share. Proceeds—To make additional investments, including stock of Columbia General Life Insurance Co. Office—Houston, Tex. Underwriter—None.

★ Commercial Life Insurance Co. of Missouri

June 21 (letter of notification) 50,000 shares of common stock to be offered initially to stockholders (par \$2). Price—\$5.50 per share. Proceeds—To be added to general funds and for expansion of business. Office—5579 Pershing Ave., St. Louis, Mo. Underwriter—Edward D. Jones & Co., St. Louis, Mo.

Commodity Fund for Capital Growth, Inc.

May 28 (letter of notification) 60,000 shares of common stock (par \$1). Price—\$5 per share. Proceeds—For trading in commodity future contracts. Office—436 West 20th St., New York 11, N. Y. Underwriter—Arthur N. Economu Associates, New York, N. Y.



Commodity Holding Corp.

June 6 (letter of notification) 3,000,000 shares of common stock (par five cents). Price—10 cents per share. Proceeds—To trade in commodities. Office—15 Exchange Place, Jersey City, N. J. Underwriter—Southeastern Securities Corp., 335 Broadway, New York.

Commonwealth, Inc., Portland, Ore.

March 23 (letter of notification) 5,912 shares of 6% cumulative preferred stock being offered for subscription by stockholders of record April 16, 1956 on a pro rata basis; rights to expire on July 2, 1956. Price—At par (\$50 per share). Proceeds—For working capital. Office—Equitable Bldg., 421 S. W. 6th Ave., Portland 4, Ore. Underwriter—None.

Connecticut Water Co., Clinton, Conn. (7/17)

June 25 filed 45,000 shares of common stock (no par). Price—To be supplied by amendment. Proceeds—To be used with funds from private sale of bonds, to be used to purchase water properties and franchises of Connecticut Light & Power Co. Underwriter—Putnam & Co., Hartford, Conn.

Consolidated Diesel Electric Corp. (7/10-11)

June 15 filed 300,000 shares of common stock (par 10 cents), of which 100,000 shares are for account of the company and 200,000 shares for account of certain selling stockholders. Price—To be supplied by amendment. Proceeds—For working capital and to finance inventories and accounts receivable. Office—Stamford, Conn. Underwriter—Van Alstyne, Noel & Co., New York.

Consolidated Mercury Corp.

May 21 (letter of notification) 1,500,000 shares of common stock (par one cent). Price—20 cents per share. Proceeds—For mining expenses. Office—41 East Second St., Winnemucca, Nev. Underwriter—Shelley, Roberts & Co., Denver, Colo.

Consolidated Water Co., Chicago, Ill. (7/9)

June 18 filed \$330,000 of 5% convertible debentures due June 1, 1976 and 26,000 shares of class A common

stock (par \$10). Price—Of debentures, 100% of principal amount; and of stock, \$12 per share. Proceeds—For payment of bank loans and other obligations totaling \$184,000, and for the purchase of securities of company's subsidiaries. Underwriters—The Milwaukee Co., Milwaukee, Wis.; Harley, Haydon & Co., Inc., Madison, Wis.; and Indianapolis Bond & Share Corp., Indianapolis, Ind.

Continental Equity Securities Corp.

March 28 filed 40,000 shares of class A common stock (par \$5) and 80,000 shares of class B common stock (par 50 cents). Price—Of class A stock, \$12.50 per share, and of class B stock, 50 cents per share. Proceeds—To increase capital and surplus. Office—Alexandria, La. Underwriter—None.

Cooper Tire & Rubber Co., Findlay, Ohio

June 6 filed 97,950 shares of common stock (no par) to be offered for subscription by common stockholders on the basis of 1 1/4 new shares for each two shares held as of June 19, 1956 (with an oversubscription privilege); rights to expire on July 12, 1956. Price—\$10.50 per share. Proceeds—For working capital. Underwriter—Prescott & Co., Cleveland, O.

Crater Lake Mining & Milling Co., Inc.

March 8 (letter of notification) 575,000 shares of common stock. Price—50 cents per share. Proceeds—For mining expenses. Office—1902 East San Rafael, Colorado Springs, Colo. Underwriter—Skyline Securities, Inc., Denver, Colo.

Crossett Co., Crossett, Ark.

June 18 (letter of notification) an undetermined number of shares of class A and class B stock (par \$5 each). Price—To be supplied by amendment. Proceeds—For general corporate purposes. Underwriter—Blyth & Co., Inc., New York.

Cullen Minerals Corp. (Texas)

March 30 (letter of notification) 300,000 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—To repay bank loans, and for expansion and working capital. Underwriter—Lepow Securities Corp., New York. Offering—Temporarily postponed.

Cummins Engine Co., Inc., Columbus, Ind. (7/16)
June 26 filed 100,000 shares of common stock (par \$5). Price—To be supplied by amendment. Proceeds—To certain selling stockholders. Underwriter—A. G. Becker & Co., Inc., Chicago, Ill.

Dalimid Oil & Uranium, Inc., Grand Junction, Colo.
April 16 (letter of notification) 2,700,000 shares of common stock (par one cent). Price—10 cents per share. Proceeds—For mining expenses. Office—1730 North 7th Street, Grand Junction, Colo. Underwriter—Columbia Securities Co., Denver, Colo.

Dean & Co., San Antonio, Texas

May 21 (letter of notification) 20,000 shares of 6% preferred stock, series A. Price—At par (\$10 per share). Proceeds—For working capital. Underwriter—The First Trust Co. of Lincoln, Neb.

Delta Air Lines, Inc., Atlanta, Ga. (7/17)

June 19 filed 125,000 shares of common stock (par \$3). Price—To be supplied by amendment. Proceeds—For general corporate purposes. Underwriter—Courts & Co., Atlanta, Ga.

Devall Land & Marine Construction Co., Inc. (7/18)

May 16 (letter of notification) 150,000 shares of common stock (par \$1). Price—\$2 per share. Proceeds—For payments of notes, to purchase and equip three boats and working capital. Office—1111 No. First Ave., Lake Charles, La. Underwriter—Vickers Brothers, Houston, Tex.

Doctors Oil Corp., Carrollton, Tex.

Feb. 23 filed 500,000 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—For working capital, to be devoted mainly to acquiring, exploring, developing and operating oil and gas properties; and to pay off \$13,590.80 liabilities. Underwriter—James C. McKeever & Associates, Oklahoma City, Okla.

Dolomite King, Inc.

June 18 (letter of notification) 6,000,000 shares of capital stock. Price—At par (five cents per share). Proceeds—For mining expenses. Office—139 North Virginia St., Reno, Nevada. Underwriter—None.

Douglas Corp., Fort Collins, Colo.

March 26 (letter of notification) 2,997,800 shares of common stock (par one cent). Price—10 cents per share. Proceeds—For mining expenses. Office—155 North College Ave., Fort Collins, Colo. Underwriter—Columbia Securities Co., Denver 2, Colo.

Downtown Parking Association, Inc.

May 18 (letter of notification) 4,000 shares of common stock (par \$25) and 4,000 shares of cumulative preferred stock (par \$50) to be sold in units consisting of one share of each class of stock. Price—\$75 per unit. Proceeds—For development of a parking building and facilities. Office—1333 American Bank Bldg., Portland, Ore. Underwriter—Blyth & Co., Inc., Portland, Ore. Full registration expected to be filed.

Eastern Washington Natural Gas Co., Inc.

June 6 (letter of notification) 50,000 shares of 6% cumulative preferred stock (par \$5) and 50,000 shares of common stock (par 50 cents) in units of one share of each class of stock. Price—\$5.50 per unit. Proceeds—To repay loans and for general corporate purposes. Office—Ritzville, Wash. Underwriter—Morgan & Co., Salt Lake City, Utah.

Electronic Engineering Co. of California

June 15 (letter of notification) 18,378 shares of common stock (par \$1), of which 13,000 shares are to be offered to employees. Price—\$9 per share. Proceeds—For plant construction and working capital. Office—180 South Alvarado St., Los Angeles 57, Calif. Underwriter—None.

Eureka Corp., Ltd., New York

April 30 filed 2,276,924 shares of common stock (par 25 cents—Canadian), of which 1,991,210 shares are to be offered for subscription by stockholders of record May 18, 1956 at the rate of one new share for each five shares held. The remaining 285,714 shares are to be issued to the underwriters as compensation in connection with the offering. Price—\$1.75 per share. Proceeds—To explore, develop and exploit the TL Shaft area. Underwriters—Alator Corp., Ltd. and Rickey Petroleum & Mines, Ltd., both of Toronto, Canada.

Florida Power Corp. (7/2)

June 8 filed \$20,000,000 of first mortgage bonds due 1986. Proceeds—To repay bank loans and for new construction. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Lehman Brothers and Blyth & Co., Inc. (jointly); Glorie, Forgan & Co.; The First Boston Corp.; Union Securities Corp. and Harriman Ripley & Co. Inc. (jointly). Bids—Expected to be received up to 11:30 a.m. (EDT) on July 2.

Florida Sun Life Insurance Co.

March 16 filed 32,000 shares of common stock (par \$1). Price—\$10 per share. Proceeds—To expand company's business. Office—Fort Lauderdale, Fla. Underwriter—None. Offering will be made through James C. Dean, President of company.

Gas Hills Mining and Oil, Inc.

Jan. 4 (letter of notification) 1,200,000 shares of common stock (par five cents). Price—25 cents per share. Proceeds—For expenses incident to mining operations. Office—Kemmerer, Wyo. Underwriter—Philip Gordon & Co., Inc., New York 6, N. Y.

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NEW ISSUE CALENDAR**July 2 (Monday)**

Florida Power Corp. Bonds
(Bids 11:30 a.m. EDT) \$20,000,000
General Transistor Corp. Common
(Milton D. Blauner & Co., Inc.) \$300,000
Lay (H. W.) & Co., Inc. Class A Common
(Johnson, Lane, Space & Co., Inc.) \$1,150,000
Union Mines, Inc. Class A Stock
(Milton D. Blauner & Co., Inc.) \$800,000

July 3 (Tuesday)

Cary Chemicals, Inc. Bonds & Common
(Lee Higginson Corp. and P. W. Brooks & Co., Inc.)
\$2,300,000 bonds and 230,000 common shares
United States Shoe Corp. Common
(Merrill Lynch, Pierce, Fenner & Beane) 170,000 shares
Washington Natural Gas Co. Common
(Barrett Herrick & Co., Inc. and Ross, Borton & Simon, Inc.)
\$234,375
Wheland Corp. Debentures
(Hemphill, Noyes & Co.; Courts & Co.; and Equitable Securities Corp.) \$2,000,000
Wheland Corp. Common
(Hemphill, Noyes & Co.; Courts & Co.; and Equitable Securities Corp.) 136,000 shares

July 6 (Friday)

Yale & Towne Manufacturing Co. Common
(Offering to stockholders—to be underwritten by Morgan Stanley & Co.) about 270,000 shares

July 9 (Monday)

Consolidated Water Co. Debent. & Class A Stk.
(The Milwaukee Co.; Harley, Haydon & Co., Inc.; and Indianapolis Bond & Share Corp.) \$642,000
Rare Metals Corp. of America Common
(Offering to stockholders of El Paso Natural Gas Co. and Western Natural Gas Co.—to be underwritten by White, Weld & Co.) 1,400,000 shares

July 10 (Tuesday)

American Telephone & Telegraph Co. Debentures
(Bids to be invited) \$250,000,000
Armstrong Rubber Co. Debentures
(Reynolds & Co., Inc.) \$9,250,000
Consolidated Diesel Electric Corp. Common
(Van Alstyne, Noel & Co.) 300,000 shares
National Research Corp. Debentures
(Faine, Webber, Jackson & Curtis) \$6,000,000
Sperry Rand Corp. Common
(Offering to stockholders—to be underwritten by Merrill Lynch, Pierce, Fenner & Beane) 2,570,846 shares
Tennessee Gas Transmission Co. Debentures
(Stone & Webster Securities Corp.; White, Weld & Co.; and Halsey, Stuart & Co. Inc.) \$30,000,000

July 11 (Wednesday)

Atlanta Gas Light Co. Common
(Offering to stockholders—to be underwritten by The First Boston Corp.; Courts & Co.; and The Robinson-Humphrey Co., Inc.) 88,280 shares
Kirsch Co. Common
(Crutenden & Co. and Smith, Hague, Noble & Co.) 120,000 shs.
Pacific Power & Light Co. Common
(Offering to stockholders—bids 11 a.m. EDT) 341,550 shares

July 13 (Friday)

San Jacinto Petroleum Corp. Common
(Offering to stockholders—to be underwritten by White, Weld & Co.) 298,410 shares

July 16 (Monday)

Altec Companies, Inc. Common
(Dean Witter & Co.) 100,000 shares
Cummins Engine Co., Inc. Common
(A. G. Becker & Co., Inc.) 100,000 shares
Mica & Minerals Corp. of America Common
(Peter Morgan & Co.) \$570,000

July 17 (Tuesday)

Atlantic Gas Light Co. Bonds
(Bids 11 a.m. EDT) \$5,000,000
Canadian International Growth Fund, Ltd. Com.
(Hayden, Stone & Co.) 625,000 shares
Connecticut Water Co. Common
(Putnam & Co.) 45,000 shares
Delta Air Lines, Inc. Common
(Courts & Co.) 125,000 shares
Union Electric Co. Bonds
(Bids 11 a.m. EDT) \$40,000,000

July 18 (Wednesday)

Devall Land & Marine Construction Co., Inc. Com.
(Vickers Brothers) \$300,000
Kansas Power & Light Co. Common
(The First Buson Corp.) 270,000 shares
Republic Cement Corp. Common
(Vickers Brothers) \$9,650,000

July 19 (Thursday)

North American Coal Corp. Common
(Dominick & Dominick and Ball, Burge & Kraus) 250,000 shs.

July 20 (Friday)

Gold Seal Dairy Products Corp. Class A
(All State Securities Dealers, Inc.) \$1,000,000

July 23 (Monday)

Copeland Refrigeration Corp. Common
(Baker, Simonds & Co.) 100,000 shares

July 24 (Tuesday)

Illinois Power Co. Bonds
(Bids to be invited) \$20,000,000

August 1 (Wednesday)

Minerals, Inc. Common
(Gearhart & Otis, Inc.) \$3,750,000

August 14 (Tuesday)

Consumers Power Co. Bonds
(Bids 11:30 a.m. EDT) \$40,000,000

August 21 (Tuesday)

Pacific Telephone & Telegraph Co. Debentures
(Bids 8:30 a.m. PDT) \$78,000,000

August 28 (Tuesday)

Consolidated Natural Gas Co. Debentures
(Bids to be invited) \$30,000,000

September 11 (Tuesday)

Carolina Power & Light Co. Bonds
(Bids to be invited) \$15,000,000

September 25 (Tuesday)

Virginia Electric & Power Co. Bonds
(Bids to be invited) \$20,000,000

October 1 (Monday)

Tampa Electric Co. Bonds
(Bids to be invited) \$10,000,000

October 2 (Tuesday)

Columbia Gas System, Inc. Debentures
(Bids to be invited) \$30,000,000

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General Precision Equipment Corp.

June 20 filed 59,445 shares of \$1.60 cumulative convertible preference stock (no par) and 59,445 shares of common stock (par \$1) to be offered in exchange for 5% preferred stock and common stock of Graflex, Inc. in the ratio of one-quarter share of General preference stock for each Graflex preferred share and one-quarter share of General common stock in exchange for each Graflex common share. Underwriter—None.

General Transistor Corp. (7/2)

June 11 (letter of notification) 100,000 shares of common stock (par 25 cents). Price—\$3 per share. Proceeds—For machinery and equipment, to repay bank loan and advances and for working capital, etc. Office—130-11 90th Ave., Richmond Hill, New York City. Underwriter—Milton D. Blauner & Co., Inc., New York City.

General Uranium Corp. (N. J.), New York

Jan. 18 filed 400,000 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—For plant facilities, survey of property and underground development. Underwriter—None. Maurice Schack, Middletown, N. Y., is President. Statement effective March 11.

Giffen Industries, Inc.

June 18 (letter of notification) 80,000 shares of common stock (par \$2.50). Price—\$3.75 per share. Proceeds—To pay note payable. Office—4112 Aurora St., Coral Gables, Fla. Underwriter—Atwill & Co., Inc., Miami Beach, Fla.

Golden Dawn Uranium Corp., Buena Vista, Colo. Dec. 27 (letter of notification) 3,000,000 shares of capital stock (par five cents). Price—10 cents per share. Proceeds—For mining expenses. Underwriter—Bel-Air Securities Co., Provo, Utah.

Gold Seal Dairy Products Corp. (7/20-8/1)

June 22 filed 200,000 shares of class A stock (par 10 cents). Price—\$5 per share. Proceeds—For expansion and to repay outstanding obligations. Office—Remsen, N. Y. Underwriter—All State Securities Dealers, Inc., New York.

Grain Elevator Warehouse Co.

May 28 filed \$6,302,950 of 5% convertible subordinated debentures due 1976, together with 126,059 shares of common stock (par 10 cents) being offered for subscription in units of \$50 of debentures and one common share by preferred and common stockholders of National Alfalfa Dehydrating & Milling Co. of record June 20, 1956 on the basis of one such unit for each preferred of National and one such unit for each 10 National common shares; rights to expire on July 12. Price—\$50 per unit. In exercising the subscription rights, credit will be given toward the subscription price on the basis of \$45 for each share of preferred and \$15 for each share of common stock of National tendered as a part of the subscription. Proceeds—For capital expenditures and working capital. Underwriter—None.

Gray Tool Co., Houston, Texas

May 3 (letter of notification) 3,270 shares of class B stock (no par), of which 1,000 shares are to be offered pro rata to the holders of class A stock and 2,270 shares are offered to employees of the company. Price—\$50 per share. Proceeds—For working capital. Office—6102 Harrisburg Blvd., Houston, Tex. Underwriter—None.

Growers Container Corp., Salinas, Calif.

May 28 filed 600,000 shares of common stock (par \$1) to be offered primarily to individuals and firms who are engaged in or closely allied to the growing and shipping industry. Price—\$3 per share. Proceeds—For working capital, capital expenditures and other corporate purposes. Underwriter—None.

Guaranty Income Life Insurance Co.

Dec. 30 (letter of notification) 24,000 shares of capital stock (par \$5) to be offered first to stockholders; then policyholders and the public. Price—\$10 per share. Proceeds—For working capital. Address—P. O. Box 2231, Baton Rouge, La. Underwriter—None.

Gunkelman (R. F.) & Sons, Fargo, N. D.

May 25 (letter of notification) 1,800 shares of 5% cumulative preferred stock (par \$100). Price—\$98 per share. Proceeds—For expenses incident to commercial grain business. Underwriter—W. R. Olson Co., Fargo, N. D.

Hard Rock Mining Co., Pittsburgh, Pa.

Feb. 20 (letter of notification) 1,000,000 shares of common stock (par one cent). Price—Five cents per share. Proceeds—To purchase machinery and equipment and for working capital. Office—377 McKee Place, Pittsburgh, Pa. Underwriter—Graham & Co., Pittsburgh, Pa.

Hidden Dome Exploration Co., Inc.

May 15 (letter of notification) 3,000,000 shares of capital stock. Price—At par (10 cents per share). Proceeds—For the development of oil and gas properties. Office—219 E. Fremont Ave., Las Vegas, Nev. Underwriter—National Securities Co., Las Vegas, Nev.

Hill & Hill 1956 Oil Exploration Capital Fund

March 13 filed \$450,000 of participations in this fund to be offered for public sale in minimum units of \$15,000. Proceeds—For payment of various property and exploratory well costs and expenses. Business—George P. Hill and Houston Hill are engaged in exploration for and production of oil and gas as a joint venture. Office—Fort Worth, Tex. Underwriters—William D. McCabe and E. S. Emerson, South Texas Bldg., San Antonio, Tex.

Hiskey Uranium Corp.

May 31 filed 500,000 shares of common stock (par 30 cents). Price—\$1 per share. Proceeds—For drilling expenses, purchase of properties and working capital. Offices—Las Vegas, Nev., and Salt Lake City, Utah. Underwriter—Ackerson-Hackett Investment Co., Reno, Nev.

Holden Mining Co., Winterhaven, Calif.

April 13 (letter of notification) 250,000 shares of capital stock. Price—At par (\$1 per share). Proceeds—For mining expenses. Address—P. O. Box 308, Winterhaven, Calif. Underwriter—Arthur B. Hogan, Inc., Hollywood, Calif.

Hometrust Corp., Inc., Montgomery, Ala.

Jan. 5 filed 125,000 shares of common stock (par \$1). Price—\$5 per share. Proceeds—To expand operations of subsidiary and increase investment therein. Underwriter—None.

Idaho-Alta Metals Corp.

March 7 (letter of notification) 120,000 shares of common stock (par 10 cents). Price—\$1.50 per share. Proceeds—For exploration and development expenses. Underwriter—Fenner Corp. (formerly Fenner-Streitman & Co.), New York.

Ideal-Aerosmith, Inc., Hawthorne, Calif.

Dec. 16 (letter of notification) 150,000 shares of capital stock (par \$1). Price—\$2 per share. Proceeds—For equipment, machinery, inventory, etc. Office—12909 So. Cerise Ave., Hawthorne, Calif. Underwriter—Samuel B. Franklin & Co., Los Angeles, Calif.

Illinois Power Co. (7/24)

June 27 filed \$20,000,000 first mortgage bonds due 1986. Proceeds—To repay bank loans and for new construction. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman, Ripley & Co. Inc. and Glore, Forgan & Co. (jointly); Union Securities Corp. Bids—Expected to be received on July 24.

Industrial Minerals Development Corp.

March 7 (letter of notification) 1,000,000 shares of common stock. Price—Five cents per share. Proceeds—For development and working capital. Office—Moab, Utah. Underwriter—I. J. Schenin Co., New York.

Inglewood Gasoline Co.

May 18 (letter of notification) 175,725.9 shares of capital stock (par 50 cents) to be first offered to stockholders. Price—\$1.70 per share. Proceeds—For construction of an absorption type gasoline plant. Office—11950 San Vincente Blvd., Suite 207, Los Angeles 49, Calif. Underwriter—Bennett & Co., Hollywood 28, Calif.

Insulated Circuits, Inc., Belleville, N. J.

Nov. 10 filed 100,000 shares of 6% convertible preferred stock (cumulative if and to the extent earned). Price—At par (\$5 per share). Proceeds—For general corporate purposes. Underwriter—Alexander Watt & Co., Inc., has withdrawn as underwriter; new one to be named.

Interlake Iron Corp.

June 4 filed 80,561 shares of common stock (no par) to be offered in exchange for common stock of Globe Metallurgical Corp. at the rate of 0.4666% of one share for each Globe share. Offer to expire on July 20, 1956, unless extended.

International Basic Metals, Inc.

Jan. 27 (letter of notification) 1,000,000 shares of common stock (par 10 cents). Price—25 cents per share. Proceeds—For mining expenses. Office—155 West South Temple St., Salt Lake City, Utah. Underwriter—Melvin G. Flegal & Co., Salt Lake City, Utah.

International Plastic Industries Corp.

Oct. 12 (letter of notification) 150,000 shares of common stock (par 10 cents). Price—\$2 per share. Proceeds—For advances to Arliss Co., Inc. for purchase of equipment, etc. Office—369-375 DeKalb Ave., Brooklyn 5, N. Y. Underwriter—Kamen & Co., New York.

Isthmus Steamship & Salvage Co., Inc.

May 4 (letter of notification) 100,000 shares of common stock (par 10 cents). Price—\$3 per share. Proceeds—For working capital and for purchase of a ship and equipment. Office—1214 Ainsley Bldg., Miami, Fla. Underwriter—Foster-Mann, Inc., New York, N. Y.

Israel-Mediterranean Petroleum, Inc. (Panama)

May 29 filed American voting trust certificates for 1,430,000 shares of common stock (par one cent), of which 1,000,000 certificates are to be offered for public sale, 180,000 shares and certificates therefor are subject to options and 250,000 shares and certificates therefor are to be offered for sale outside of the United States. Price—To be the market price on the American Stock Exchange. Proceeds—For carrying out the exploratory drilling and development of presently licensed acreage, operations and expenses of the company, and acquisition, exploration and development of additional acreage. Underwriter—H. Kook & Co., Inc., New York.

Jurassic Minerals, Inc., Cortez, Colo.

Aug. 26 (letter of notification) 2,855,000 shares of non-assessable common stock (par one cent). Price—10 cents per share. Proceeds—For expenses incident to mining activities. Office—326 West Montezuma St., Cortez, Colo. Underwriter—Bay Securities Corp., New York, New York.

Kansas Power & Light Co. (7/18)

June 25 filed 270,000 shares of common stock (par \$8.75). Price—To be supplied by amendment. Proceeds—To repay bank loans and for new construction. Underwriter—The First Boston Corp., New York.

Kay Lab, San Diego, Calif.

May 23 filed 364,280 shares of class A common stock (par \$1), of which 307,400 shares are to be offered to the public and 56,880 shares to certain stockholders. Price—To be supplied by amendment. Proceeds—\$2,455,361 to be applied to the repayment of notes and bank loans; \$343,700 to pay accounts payable and commissions payable; and the balance of approximately \$200,000 to be added initially to working capital to be used for general corporate purposes. Underwriter—Shearson, Hammill & Co., New York, and Los Angeles, Calif.

★ Keefe Chemical Manufacturing Corp.

June 13 (letter of notification) 50,000 shares of common stock (par one cent). Price—\$1 per share. Proceeds—For working capital, etc. Office—295 Hayden St., N. W., Atlanta, Ga. Underwriter—Garnett H. Davis, President.

★ Kirsch Co., Sturgis, Mich. (7/11)

June 21 filed 120,000 shares of common stock (par \$5). Price—To be supplied by amendment. Proceeds—To selling stockholders. Business—Drapery hardware. Underwriters—Cruttenden & Co., Chicago, Ill.; and Smith, Hague, Noble & Co., Detroit, Mich.

★ Knox Corp., Thomson, Ga.

June 20 filed 150,000 shares of class A common stock (par \$1). Price—To be supplied by amendment. Proceeds—To pay loans from banks and factors; and for working capital and other corporate purposes. Business—Prefabricated homes, house trailers and lumber. Underwriter—Ira Haupt & Co., New York.

Kropp Forge Co.

June 4 (letter of notification) 18,804 shares of common stock (par 33 1/2 cents). Price—At market. Proceeds—To selling stockholders. Underwriter—Sincere & Co., Chicago, Ill.

Lawyers Mortgage & Title Co.

May 11 (letter of notification) 133,000 shares of common stock (par 65 cents). Price—\$1.50 per share. Proceeds—For working capital. Office—115 Broadway, New York 6, N. Y. Underwriter—None.

★ Lay (H. W.) & Co., Inc. (7/2-5)

May 25 filed 200,000 shares of class A common stock (par 50 cents), of which 149,000 shares are to be offered by the company and 51,000 shares for account of certain selling stockholders. Price—\$5.75 per share. Proceeds—To repay \$300,000 of bank loans, retire 7,879 shares of 5.2% cumulative convertible preferred stock, and for working capital. Business—Produces food products. Office—Chamblee, Ga. Underwriter—Johnson, Lane, Space & Co., Inc., Savannah, Ga.

Lester Engineering Co., Cleveland, Ohio

Feb. 24 (letter of notification) 37,500 shares of common stock (par \$1) to be offered for subscription by common stockholders of record March 1, 1956 on the basis of one new share for each 4 1/4 shares held. Of the unsubscribed portion, up to 7,500 shares are to be offered to employees. Price—\$8 per share. Proceeds—For general corporate purposes. Office—2711 Church Ave., Cleveland, Ohio. Underwriter—None.

Lewisohn Copper Corp.

March 30 filed 100,000 shares of common stock (par 10 cents). Price—To be supplied by amendment. Proceeds—For exploration and evaluation of leasehold properties, improvements, equipment and for general corporate purposes. Office—Tucson, Ariz. Underwriter—George F. Breen, New York. Offering—Postponed.

★ Lithium Developments, Inc., Cleveland, Ohio

June 21 filed 600,000 shares of common stock (par 10 cents), of which 600,000 shares are to be sold for account of the company and 90,000 shares for selling stockholders. Price—\$1 per share, by amendment. Proceeds—For exploration and development and other general corporate purposes. Underwriter—George A. Searight, New York City.

Lone Star Fund, Dallas, Texas

June 1 filed 125,000 shares of Balanced Income Series; 125,000 shares of Insurance Growth Series; and 125,000 shares of Industrial Growth Series. Price—At market. Proceeds—For investment. Underwriter—All States Management Co., Dallas, Texas.

Long Island Lighting Co.

April 5 filed 120,000 shares of cumulative preferred stock, series G (par \$100). Price—To be supplied by amendment. Proceeds—To repay bank loans. Underwriters—Blyth & Co., Inc., The First Boston Corp. and W. C. Langley & Co., all of New York. Offering—Postponed because of present unsatisfactory market conditions.

Los Angeles Airways, Inc., Los Angeles, Calif.

April 23 (letter of notification) 645 shares of common stock (par \$10). Price—\$54 per share. Proceeds—To Clarence M. Belinn, the selling stockholder. Office—5901 West Imperial Highway, Los Angeles 49, Calif. Underwriter—Dean Witter & Co., Los Angeles, Calif.

Lost Canyon Uranium & Oil Co.

Oct. 6 (letter of notification) 3,000,000 shares of non-assessable capital stock (par one cent). Price—10 cents per share. Proceeds—For expenses incident to mining operations. Office—Simms Bldg., Albuquerque, N. M. Underwriter—Mid-America Securities Inc. of Utah, Salt Lake City, Utah.

Lumberman's Investment & Mortgage Co.

May 2 filed 50,000 shares of common stock (par \$10). Price—\$12 per share. Proceeds—For working capital and general corporate purposes. Office—Denver, Colo. Underwriter—None.

Mammoth Milling & Uranium Co., Inc.

May 11 (letter of notification) 3,000,000 shares of capital stock. Price—At par (10 cents per share). Proceeds—For mining expenses. Office—205 Carlson Bldg., Pocatello, Idaho. Underwriter—Columbia Securities Co., Inc. of California, Beverly Hills, Calif.

Manufacturers Cutter Corp.

Oct. 18 (letter of notification) 300,000 shares of class A common stock. Price—At par (\$1 per share). Proceeds—To repay loans, and for new equipment and working capital. Business—Cutting tools. Office—275 Jefferson St., Newark, N. J. Underwriter—Paul C. Ferguson & Co., same city.

★ **Marquardt Aircraft Co., Van Nuys, Calif.**

June 25 filed 42,000 shares of capital stock (par \$1) to be offered for subscription by stockholders on a pro rata basis. Price—To be supplied by amendment. Proceeds—From sale of stock, together with funds from private placement of \$2,000,000 of first mortgage 5½% bonds, for capital improvement, equipment and general corporate purposes. Underwriter—None.

★ **Mechanics Finance Co.**

June 18 (letter of notification) \$250,000 of 7% 20-year debentures due July 10, 1976. Price—100% of principal amount (in denominations of \$10 each). Proceeds—For working capital and general corporate purposes. Office—586 Newark Ave., Jersey City, N. J. Underwriter—None.

★ **Mercantile Acceptance Corp. of California**

May 24 (letter of notification) \$100,000 of 12 year 5% debentures. Price—At par. Proceeds—For working capital. Office—333 Montgomery St., San Francisco, Calif. Underwriter—Guardian Securities Corp., San Francisco, Calif.

★ **Mercoast Corp., New York**

May 18 filed 250,466 shares of capital stock (par 10 cents) being offered for subscription by stockholders of record June 15, 1956, on the basis of two new shares for each three shares held; rights to expire on July 3. Price—\$3 per share. Proceeds—For advances to subsidiaries; to repay current bank loans; for improvement and development costs; and other corporate purposes. Underwriter—None.

★ **Mica & Minerals Corp. of America (7/16)**

June 13 filed 570,000 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—To repayment of loans, to exercise option to purchase property now under lease, for construction of a plant, and for further exploration, working capital and other general corporate purposes. Office—Wilmington, Del. Underwriter—Peter Morgan & Co., New York.

★ **Mid-Continent Uranium Corp.**

May 31 (letter of notification) 100,000 shares of common stock (par one cent). Price—50 cents per share. Proceeds—For mining expenses. Office—728 Symes Bldg., Denver 2, Colo. Underwriter—General Investing Corp., New York, N. Y.

★ **Midland General Hospital, Inc., Bronx, N. Y.**

Jan. 12 filed 24,120 shares of common stock (no par) and 30,000 shares of \$6 dividend preferred stock (no par). The company does not intend presently to sell more stock than is required to raise, at most, \$2,700,000. Price—\$100 per share. Proceeds—For construction, working capital, reserve, etc. Underwriter—None.

★ **Minerals, Inc., New York (8/1)**

June 22 filed 2,500,000 shares of common stock (par one cent). Price—\$1.50 per share. Proceeds—To acquire for \$2,400,000 the Chavin lead-zinc-copper-silver mine located in South Central Peru, and for general corporate purposes. Underwriter—Gearhart & Otis, Inc., New York.

★ **Mission Appliance Corp. of Mississippi**

April 23 (letter of notification) 7,475 shares of preferred stock (par \$20) and 29,900 shares of common stock (par \$5) to be offered in units of one preferred and four common shares. Price—\$40 per unit. Proceeds—For purchase of machinery and equipment. Office—New Albany, Miss. Underwriter—Lewis & Co., Jackson, Miss.

★ **Modern Pioneers' Life Insurance Co.**

May 24 (letter of notification) \$300,000 of trust fund certificates. Price—At par (\$2 per unit). Proceeds—To provide capital and surplus funds for the activation of this insurance company. Underwriter—Arizona Mutual Benefit Insurance Co., Phoenix, Ariz.

★ **Mohawk Silica Co., Cincinnati, Ohio**

March 23 (letter of notification) 3,000 shares of 8% cumulative convertible preferred stock (par \$50) and 3,000 shares of common stock (no par) to be offered in units of one share of preferred and one share of common. Price—\$60 per unit. Proceeds—For mining expenses and processing silica. Office—2508 Auburn Ave., Cincinnati, Ohio. Underwriter—None.

★ **Monsanto Chemical Co.**

June 26 filed 400,000 shares of common stock (par \$2) to be offered pursuant to the company's 1956 Employees' Stock Plan.

★ **Mormon Trail Mining Corp., Salt Lake City, Utah**

Feb. 9 (letter of notification) 3,000,000 shares of capital stock (par one cent). Price—10 cents per share. Proceeds—For mining expenses. Office—223 Phillips Petroleum Bldg., Salt Lake City, Utah. Underwriter—Frontier Investment, Inc., Las Vegas, Nev.

★ **Nash Finch Co.**

June 7 (letter of notification) 1,000 shares of common stock (par \$10). Price—At market. Proceeds—To selling stockholder. Underwriter—J. M. Dain & Co., Inc., Minneapolis, Minn.

★ **National By-Products, Inc.**

June 19 (letter of notification) 2,000 shares of common stock (par \$1). Price—\$5 per share. Proceeds—To pay Federal estate taxes. Office—800 Bankers Trust Bldg., Des Moines, Iowa. Underwriter—T. C. Henderson & Co., Inc., Des Moines, Iowa.

★ **National Consolidated Mining Corp.**

May 9 (letter of notification) 87,000 shares of common stock (par one cent). Price—\$3 per share. Proceeds—For mining expenses. Address—Salida, Colo. Underwriter—Pummill Enterprises, Houston, Tex.

★ **National Lithium Corp., Denver, Colo.**

Dec. 27 (letter of notification) 300,000 shares of common stock (par one cent). Price—\$1 per share. Proceeds—

For mining expenses. Office—556 Denver Club Bldg., Denver, Colo. Underwriter—Investment Service Co., same city.

★ **National Metallizing Corp.**

March 5 (letter of notification) 24,000 shares of Class A stock (par \$1) and 40,000 shares of Class B stock (par \$1) to be offered for subscription by Class A and Class B stockholders of record Feb. 1, 1956 on a 1-for-4 basis. Price—\$2 per share. Proceeds—For vacuum metallizing, conditioning, slitting and inspection machinery. Office—1145-19th St., N. W., Washington, D. C. Underwriter—None.

★ **National Old Line Insurance Co.**

Nov. 15 filed 50,000 shares of class A common stock (par \$2) and 50,000 shares of class B common stock (par \$2). Price—To be supplied by amendment. Proceeds—To selling stockholders. Office—Little Rock, Ark. Underwriter—Equitable Securities Corp., Nashville, Tenn., and New York, N. Y. Offering—Indefinitely postponed.

★ **National Research Corp. (7/10-17)**

June 21 filed \$6,000,000 of convertible subordinated debentures due July 1, 1976. Price—100% of principal amount. Proceeds—\$3,000,000 in payments of capital stock of NRC Metals Corp., a wholly-owned subsidiary; for advances to said subsidiary and for general corporate purposes. Business—Scientific research and the commercial development of the results obtained. Office—Cambridge, Mass. Underwriter—Paine, Webber, Jackson & Curtis, Boston, Mass., and New York, N. Y.

★ **Niagara Uranium Corp., Salt Lake City, Utah**

April 3 (letter of notification) 2,400,000 shares of common stock (par 3½ cents). Price—10 cents per share. Proceeds—For mining expenses. Office—345 South State St., Salt Lake City, Utah. Underwriter—Birkenmayer & Co., Denver, Colo.

★ **Nicholson (W. H.) & Co., Wilkes-Barre, Pa.**

Jan. 16 filed 20,000 shares of common stock (par \$5). Price—\$25 per share. Proceeds—For working capital. Underwriter—None. A. E. Nicholson Jr. of Kingston, Pa. is President.

★ **North American Coal Corp (7/19)**

June 25 filed 250,000 shares of common stock (par \$1). Price—To be supplied by amendment. Proceeds—For mining machinery and working capital. Office—Cleveland, Ohio. Underwriters—Dominick & Dominick, New York; and Ball, Burge & Kraus, Cleveland, Ohio.

★ **North American Planning Corp., New York**

June 25 filed \$15,000,000 of Single Payment Investment Plans, Systematic Investment Plans, and Systematic Investment Plans with Insurance, for the accumulation of shares of Boston Fund, Inc.

★ **Oak Mineral & Oil Corp., Farmington, N. M.**

Nov. 8 (letter of notification) 2,000,000 shares of common stock (par five cents). Price—15 cents per share. Proceeds—For exploration and development and other general corporate purposes. Underwriter—Phillip Gordon & Co., New York.

★ **Pacific Finance Corp. (Calif.)**

April 10 filed \$25,000,000 of debentures due 1971. Price—To be supplied by amendment. Proceeds—For reduction of short-term bank loans. Underwriters—Blyth & Co., Inc., and Hornblower & Weeks. Offering—Indefinitely postponed.

★ **Pacific Gas & Electric Co.**

May 22 filed 812,791 shares of common stock (par \$25) being offered for subscription by common stockholders of record June 12, 1956 on the basis of one new share for each 20 shares held; rights to expire on July 2, 1956. Price—\$45 per share. Proceeds—To reduce bank loans and for construction program. Underwriter—Blyth & Co., Inc., San Francisco and New York.

★ **Pacific Power & Light Co. (7/11)**

June 7 filed 341,550 shares of common stock (par \$6.50) to be offered for subscription by common stockholders of record July 11, 1956 at the rate of one additional share for each 10 shares then held; rights to expire on Aug. 2, 1956. Price—To be set by board of directors. Proceeds—For construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Lehman Brothers, Union Securities Corp., Bear, Stearns & Co. and Dean Witter & Co. (jointly); Kidder, Peabody & Co. Bids—Tentatively expected to be received up to 11 a.m. (EDT) on July 11.

★ **Pan-Israel Oil Co., Inc. (Panama)**

May 29 filed American voting trust certificates for 1,430,000 shares of common stock (par one cent), of which 1,000,000 certificates are to be offered for public sale, 180,000 shares and certificates therefor are subject to options and 25,000 shares and certificates therefor are to be offered for sale outside of the United States. Price—To be the market price on the American Stock Exchange. Proceeds—For exploration, drilling and development of oil and gas acreage in Israel. Underwriter—H. Kook & Co., Inc., New York.

★ **Peabody Coal Co., Chicago, Ill.**

Feb. 27 filed 210,823 shares of common stock being offered for subscription by stockholders of record Jan. 30, 1956 on the basis of nine additional shares of common stock for each 100 common shares held and nine new shares of common stock for each 40 shares of preferred stock held. This offer will not be made to holders of the 6,492,164 shares of common stock issued for the acquisition of the Sinclair properties under an offer of June 28, 1955. The warrants will expire on Dec. 31, 1957. Price—At par (\$5 per share). Proceeds—For working capital and general corporate purposes. Underwriter—None. Statement effective March 27.

★ **Perforating Guns Atlas Corp.**

June 4 (letter of notification) 12,500 shares of common stock (par \$1). Price—\$24 per share. Proceeds—To go to six selling stockholders. Office—Scott St. and Holmes Road, Houston, Tex. Underwriter—Rotan, Mosle & Co., Houston, Tex.

★ **Pinellas Industries, Inc., St. Petersburg, Fla.**

Feb. 16 (letter of notification) 8,000 shares of class A common stock (par \$1). Price—At the market (maximum \$6). Proceeds—For working capital. Office—34th St. & 22nd Ave., North, St. Petersburg, Fla. Underwriter—Eisele & King, Libaire, Stout & Co., New York.

★ **Popular Merchandise Co., Inc.**

June 8 filed 259,473 shares of common stock (par \$1), of which 200,000 shares are to be sold for account of the company and 59,473 shares for account of two selling stockholders. Price—To be supplied by amendment (expected at \$8 per share). Proceeds—For expansion and working capital. Office—Fairlawn, N. J. Underwriter—Shields & Co., New York. Statement has been withdrawn.

★ **Porter-Cable Machine Co.**

June 14 (letter of notification) 15,000 shares of common stock (par \$10) to be offered for subscription by stockholders at rate of one new share for each 14 shares held. Price—\$20 per share. Proceeds—For working capital and expansion program. Office—1714 No. Salina St., Syracuse, N. Y. Underwriter—George D. B. Bonbright & Co., Rochester, N. Y.

★ **Pro-Active Foods Corp.**

June 22 (letter of notification) 19,857 shares of 80 cents cumulative preferred stock (par \$5) and 39,714 shares of common stock (par \$1) to be offered in units of one share preferred and two shares of common. Price—\$15 per unit. Proceeds—For working capital. Office—4504 West 38th St., Minneapolis 16, Minn. Underwriter—None.

★ **Prudential Federal Uranium Corp.**

March 21 (letter of notification) 6,000,000 shares of common stock (par two cents). Price—Five cents per share. Proceeds—For mining expenses. Underwriter—Skyline Securities, Inc., Denver 2, Colo.

★ **R. and P. Minerals, Inc., Reno, Nev.**

Feb. 14 (letter of notification) 500,000 shares of common stock. Price—At par (10 cents per share). Proceeds—For mining expenses. Office—575 Mill St., Reno, Nev. Underwriter—Utility Investments, Inc., Reno, Nev.

★ **Radalite Corp.**

June 8 (letter of notification) 171,000 shares of capital stock (par 10 cents). Price—\$1.75 per share. Proceeds—To pay obligations, to buy equipment and inventory, and for working capital. Business—Manufacture and sale of color-illuminated interchangeable letter Radalite sign. Office—41-18 38th St., Long Island City, N. Y. Underwriter—Vickers Brothers, New York. Offering—Expected at end of July.

★ **Radium Hill Uranium, Inc., Montrose, Colo.**

June 14 (letter of notification) an undetermined number of shares of common stock which when sold at the market will bring in an aggregate amount of \$42,500. Proceeds—For mining expenses. Office—Bryant Bldg., Montrose, Colo. Underwriter—Shaiman & Co., Denver, Colo.

★ **Rainbow Uranium Co., Denver, Colo.**

May 8 (letter of notification) 3,000,000 shares of common stock (par one cent). Price—10 cents per share. Proceeds—For mining expenses. Office—316 Symes Bldg., Denver, Colo. Underwriter—Carroll & Co., Denver, Colo.

★ **Rapp (Fred P.), Inc., St. Louis, Mo.**

March 2 filed 150,000 shares of 5½% cumulative preferred stock (par \$10). Price—To be supplied by amendment. Proceeds—To repay bank loans incurred by company to redeem and cancel all of the issued and outstanding shares of 4% and 7% preferred stock; and for expansion program. Underwriter—Edward D. Jones & Co., St. Louis, Mo. Statement may be withdrawn as company may be acquired by ACF-Wrigley Stores, Inc.

★ **Rare Metals Corp. of America, El Paso, Texas (7/9)**

June 15 filed 1,400,000 shares of capital stock (par \$1) to be offered for subscription by common stockholders of El Paso Natural Gas Co. and Western Natural Gas Co. on the basis of one share of Rare Metals stock for each five shares or portion thereof of El Paso common stock and one share of Rare Metals stock for each 11 shares or portion thereof of Western Natural Gas Co. common stock. The offering is expected to be made during a two-week period commencing in July. Price—To be supplied by amendment. Proceeds—\$1,250,000 to be used to pay outstanding 4% short-term notes and the then outstanding 3½% and 3¾% subordinated notes of El Paso and Western. The remainder will be used to pay for exploration, acquisition and development of mining and milling properties and for working capital. Underwriter—White, Weld & Co., New York.

★ **Rea (J. B.) Co., Inc., Santa Monica, Calif.**

May 29 (letter of notification) 50,000 shares of common stock (par \$5) per share. Price—\$6 per share. Proceeds—For inventory and working capital. Office—1723 Cloverfield Blvd., Santa Monica, Calif. Underwriter—Shearson, Hammill & Co., Beverly Hills, Calif.

★ **Reid Laboratories, Inc.**

June 13 (letter of notification) 297,000 shares of capital stock. Price—At par (\$1 per share). Proceeds—For working capital, etc. Office—2965 Nancy Creek Road, N. W., Atlanta, Ga. Underwriter—None.

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Reinsurance Investment Corp., Birmingham, Ala.
May 25 filed 2,985,000 shares of common stock, of which 2,485,000 shares are to be offered to public and 500,000 shares are to be reserved on exercise of options to be granted to employees of company. Price—To public, \$2 per share. Proceeds—The first \$3,000,000 will be used to purchase or organize a legal reserve life insurance company to be known as the "Reinsurance Company of the South"; the remainder will be used for other corporate purposes. Underwriter—Luna, Matthews & Waites.

Reno Hacienda, Inc., Inglewood, Calif.
Dec. 19 filed 4,000,000 shares of common stock. Price—At par (\$1 per share). Proceeds—To purchase real property, for construction of buildings and other facilities and for general corporate purposes. Underwriter—Wilson & Bayley Investment Co.

Republic Cement Corp., Prescott, Ariz. (7/18)
April 20 filed 965,000 shares of capital stock. Price—\$10 per share. Proceeds—For construction of plant, working capital and general corporate purposes. Underwriter—Vickers Brothers, New York.

Rogovin Industries, Ltd. (New York)
June 4 filed 75,000 shares of common stock (par \$100) and \$7,500,000 of 20-year 3% debentures due May 1, 1976. This includes 5,000 common shares and \$500,000 of debentures to be received by Beaunit Mills, Inc. in payment for rights to manufacture viscose rayon yarns. Price—At par or principal amount. Proceeds—For capital expenditures, working capital and other corporate purposes. Underwriter—None.

San Jacinto Petroleum Corp. (7/13)
June 2 filed 298,410 shares of common stock (par \$1) to be offered for subscription by common stockholders of record July 12 on the basis of one new share for each four shares held. Price—To be supplied by amendment. Proceeds—To discharge certain obligations and for general corporate purposes. Office—Houston, Tex. Underwriter—White, Weld & Co., New York.

Schwartz Carbonic Co., El Paso, Texas
Feb. 27 (letter of notification) 30,700 shares of common stock to be offered for subscription by stockholders on basis of 0.6158 new share for each common share held. Price—\$7.50 per share. Proceeds—For expenses incident to manufacturing and sales of carbon dioxide. Office—1600 East Eleventh St., El Paso, Tex. Underwriter—None.

Securities Acceptance Corp.
June 8 (letter of notification) 5,000 shares of cumulative 5% preferred stock (par \$25). Price—\$26.25 plus accrued dividends from April 1, 1956. Proceeds—For working capital. Office—304 South 18th St., Omaha, Neb. Underwriters—Cruttenden & Co., Chicago, Ill.; Wachob-Bender Corp., Omaha, Neb. and The First Trust Co. of Lincoln, Neb., Lincoln, Neb.

Security Casualty Insurance Co.
May 10 (letter of notification) 30,000 shares of common stock (par 30 cents) and 90,000 shares of participating preferred stock (par 50 cents) to be offered in units of one share of common and three shares of preferred stock. Price—\$4 per unit. Proceeds—For working capital, etc. Office—257 Josephine St., Denver, Colo. Underwriter—Intermountain Securities, Inc., Denver, Colo.

Selective Life Insurance Co., Montgomery, Ala.
June 15 (letter of notification) 50,000 shares of common stock (par 50 cents). Price—\$1.50 per share. Underwriter—None.

Shangrila Uranium Corp.
Dec. 30 (letter of notification) 300,000 shares of common stock. Price—At par (\$1 per share). Proceeds—For mining expenses. Underwriter—Western States Investment Co., Tulsa, Okla.

Sierra Pacific Power Co.
June 1 filed 62,576 shares of common stock (par \$7.50) being offered for subscription by common stockholders of record June 21, 1956 at the rate of one new share for each ten shares then held (with an oversubscription privilege); rights to expire on July 6, 1956. Price—\$20 per share. Proceeds—To repay bank loans made for construction purposes. Underwriters—Stone & Webster Securities Corp. and Dean Witter & Co. (jointly).

Skiatron Electronics & Television Corp.
March 18 filed 470,000 shares of common stock (par 10 cents). Price—At the market. Proceeds—To selling stockholders. Underwriter—None.

Sonic Research Corp.
June 20 (letter of notification) 90,000 shares of common stock (par \$1). Price—\$2 per share. Proceeds—For cost of negotiating additional license agreements and the demonstration of equipment to be licensed. Office—15 Chardon St., Boston, Mass. Underwriter—Jackson & Co., Inc., Boston, Mass.

Southern Nevada Power Co.
June 4 filed 175,000 shares of common stock (par \$1). Price—\$19 per share. Proceeds—To retire bank loans and for construction program. Underwriters—William R. Staats & Co., Los Angeles, Calif.; and Hornblower & Weeks, New York. Offering—Expected today (June 28).

Southwestern Oklahoma Oil Co., Inc.
Feb. 27 (letter of notification) 15,001 shares of common stock (par 10 cents) to be offered for subscription by stockholders. Price—\$10 per share. Proceeds—For expenses incident to development of oil and gas properties. Office—801 Washington Bldg., Washington, D. C. Underwriter—None.

Southwestern Resources, Inc., Santa Fe, N. M.
June 8 filed 1,000,000 shares of common stock (par 25 cents). Price—\$5 per share. Proceeds—To exercise options, purchase additional properties and for general corporate purposes. Underwriter—Southwestern Securities Co., Dallas, Texas.

Sperry Rand Corp. (7/10)

June 14 filed 2,570,846 shares of common stock (par 50 cents) to be offered for subscription by common stockholders of record July 9, 1956, on the basis of one new share for each 10 shares held; rights to expire on July 25, 1956. Price—To be supplied by amendment. Proceeds—To reduce bank loans and for capital expenditures. Underwriters—Lehman Brothers and Merrill Lynch, Pierce, Fenner & Beane, both of New York.

Strategic Metals, Inc., Tungsten, Nevada
Jan. 4 (letter of notification) 1,200,000 shares of common stock. Price—25 cents per share. Proceeds—For expenses incident to mining operations. Underwriter—R. Reynolds & Co., Salt Lake City, Utah.

Suburban Land Developers, Inc., Spokane, Wash.
Feb. 2 (letter of notification) 920 shares of 6% cumulative non-voting preferred stock (\$100 per share) and 2,160 shares of common stock (par \$10). Price—Of preferred, \$100 per share; and of common, \$15 per share. Proceeds—For improvements and working capital. Office—909 West Sprague Ave., Spokane, Wash. Underwriter—W. T. Anderson & Co., Inc., Spokane, Wash.

Sun Oil Co., Philadelphia, Pa.
April 18 filed 229,300 shares of common stock. Price—At the market. Proceeds—To selling stockholders. Underwriter—None.

Sweet Corp. (Utah)
May 7 (letter of notification) 300,000 shares of common stock. Price—At par (\$1 per share). Proceeds—For mining expenses. Office—Continental Bank Bldg., Salt Lake City, Utah. Underwriter—Coltharp Investment Inc., Salt Lake City, Utah.

Target Uranium Corp., Spokane, Wash.
March 1 (letter of notification) 1,000,000 shares of common stock (par five cents). Price—20 cents per share. Proceeds—For mining expenses. Office—422 Paulsen Bldg., Spokane, Wash. Underwriters—Percy Dale Lanphere and Kenneth Miller Howser, both of Spokane, Wash.

Tennessee Gas Transmission Co. (7/10)
June 15 filed \$30,000,000 of debentures due Jan. 1, 1977. Price—To be supplied by amendment. Proceeds—Toward payment of outstanding short-term notes issued under the Revolving Credit Agreement. Underwriters—Stone & Webster Securities Corp.; White, Weld & Co.; and Halsey, Stuart & Co. Inc., all of New York.

Teton Oil & Minerals Co.
May 29 (letter of notification) 3,000,000 shares of common stock (par one cent). Price—10 cents per share. Proceeds—For mining and drilling expenses. Office—750 Equitable Bldg., Denver, Colo. Underwriter—Columbia Securities Co., Denver, Colo.

Tex-Star Oil & Gas Corp., Dallas, Texas
Jan. 20 (letter of notification) 99,990 shares of common stock (par \$1). Price—\$3 per share. Proceeds—For working capital and general corporate purposes. Office—Meadows Building, Dallas, Texas. Underwriter—Thomas F. Neblett, Los Angeles, Calif.

Tipton County Utilities Co., Inc., Dyersburg, Tenn.
June 21 (letter of notification) \$115,500 of 5½% first mortgage bonds dated Jan. 1, 1956 and due 1958-1980, inclusive. Price—100% and accrued interest. Proceeds—For construction program. Underwriter—The First of Arizona Co., Phoenix, Ariz.

Togor Publications, Inc., New York
March 16 (letter of notification) 299,700 shares of common stock (par 10 cents). Price—\$1 per share. Proceeds—For working capital and general corporate purposes. Office—381 Fourth Ave., New York, N. Y. Underwriter—Federal Investment Co., Washington, D. C.

U-Kan Minerals, Inc., Topeka, Kansas
June 19 (letter of notification) 599,600 shares of common stock (par 10 cents). Price—50 cents per share. Proceeds—For mining expenses. Office—204 Central Bldg., Topeka, Kan. Underwriter—E. R. Bell Co., Kansas City, Mo.

Union Chemical & Materials Corp.
May 25 filed 200,000 shares of common stock (par \$10). Price—To be supplied by amendment. Proceeds—To selling stockholders. Office—Chicago, Ill. Underwriters—Allen & Co., Bache & Co. and Reynolds & Co., Inc., all of New York. Offering—Temporarily postponed.

Union Electric Co., St. Louis, Mo. (7/17)
June 18 filed \$40,000,000 of first mortgage bonds due July 1, 1986. Proceeds—To repay bank loans and for construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Bear, Stearns & Co. (jointly); Blyth & Co., Inc. and Union Securities Corp. (jointly); The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly). Bids—Expected to be received up to 11 a.m. (EDT) on July 17.

Union Mines, Inc. (7/2)
May 17 filed 400,000 shares of class A stock (par 10¢). Price—\$2 per share. Proceeds—To pay indebtedness and for exploration and development costs. Office—Grand Junction, Colo. Underwriter—Milton D. Blauner & Co., Inc., New York.

Union Tank Car Co.
June 4 filed 335,714 shares of capital stock (no par) being offered for subscription by stockholders of record June 22, 1956 on the basis of one new share for each seven shares held; rights to expire on July 9, 1956. Price—\$29 per share. Proceeds—For working capital and general corporate purposes. Underwriters—Smith, Barney & Co., New York, and Blunt Ellis & Simmons, Chicago, Ill.

Union of Texas Oil Co., Houston, Texas
Jan. 19 (letter of notification) 240,000 shares of common stock (par 10 cents). Price—\$1.25 per share. Proceeds—For expenses incident to oil production. Office—San Jacinto Building, Houston, Tex. Underwriter—Mickle & Co., Houston, Texas.

U. S. Fiberglass Industrial Plastics, Inc.
March 19 (letter of notification) 150,000 shares of convertible preferred stock (par \$1) and 30,000 shares of common stock (par 10 cents) to be offered in units of five shares of preferred stock and one share of common stock first to stockholders. Price—To stockholders, \$9 per unit; and to public, \$10 per unit. Proceeds—For capital improvements and general corporate purposes. Office—Norwood, N. J. Underwriter—None.

United States Life Insurance Co. of N. Y.
June 1 filed 650,064 shares of capital stock (par \$2), of which 100,000 shares are being offered by the company for subscription by stockholders of record June 7, 1956 at the rate of one new share for each 10 shares then held; subscription warrants will expire at 3:30 p.m. (EDT) on July 9, 1956 (of the 100,000 shares, the Continental companies have agreed not to exercise their subscription warrants which total 75,006 shares). Of the remaining 550,064 shares which are presently outstanding, 310,476 shares are to be sold for the account of Continental Casualty Co. and 239,588 shares for the account of Continental Assurance Co. Continental Casualty is the owner of 510,476 shares (51.047%) and Continental Assurance Co. 240,000 shares (24%) of the outstanding United States Life Insurance Co. stock. Price—\$26 per share. Proceeds—To company, to be invested in income producing securities. Underwriters—William Blair & Co., Chicago, Ill.; and The First Boston Corp. and Carl M. Loeb, Rhoades & Co., both of New York.

United States Shoe Corp. (7/3)
June 6 filed 170,000 shares of common stock (par \$1). Price—To be supplied by amendment. Proceeds—To selling stockholders. Office—Cincinnati, Ohio. Underwriter—Merrill Lynch, Pierce, Fenner & Beane, New York.

Universal Fuel & Chemical Corp.
May 17 (letter of notification) 300,000 shares of capital stock. Price—At par (\$1 per share). Proceeds—For mining expenses. Office—825 Broadway, Farrell, Pa. Underwriter—Langley-Howard, Inc., Pittsburgh, Pa.

Uranium Exploration Co., Salt Lake City, Utah
Feb. 13 (letter of notification) 77,875 shares of common stock (par 25 cents). Price—\$1 per share. Proceeds—For mining expenses. Office—538 East 21st South St., Salt Lake City, Utah. Underwriter—Pioneer Investments, Salt Lake City, Utah.

Utco Uranium Corp., Denver, Colo.
Jan. 30 (letter of notification) 200,000 shares of common stock, which are covered by an option held by the underwriter. Price—10 cents per share. Proceeds—For mining expenses. Office—310 First National Bank Bldg., Denver, Colo. Underwriter—Amos C. Sudler & Co., same city.

Vance Industries, Inc., Evanston, Ill.
Jan. 24 (letter of notification) 7,000 shares of common stock (par one cent). Price—\$7 per share. Proceeds—To selling stockholders. Office—2108 Jackson Ave., Evanston, Ill. Underwriter—Arthur M. Krensky & Co., Inc., Chicago, Ill.

Ward Industries Corp.
March 9 (letter of notification) 12,000 shares of \$1.25 cumulative preferred stock, series A (par \$25) and 1,500 shares of common stock (par \$1) being offered in exchange for 5% cumulative preferred stock (par \$100) of The Prosperity Co. on the basis of four Ward preferred shares, one-half share of Ward common stock and \$1.05 in cash for each Prosperity preferred share. This offer, which is limited to acceptance by 3,000 Prosperity preferred shares, is alternative to the right to receive instead \$100 per Prosperity preferred share.

Washington Natural Gas Co. (7/3)
June 18 (letter of notification) 187,500 shares of common stock (par 10 cents). Price—\$1.25 per share. Proceeds—For working capital. Office—217 Washington Ave., Clarksburg, W. Va. Underwriters—Barrett Herick & Co., Inc., New York, N. Y. and Ross, Borton & Simon, Inc., Cleveland, Ohio.

West Jersey Title & Guaranty Co.
Jan. 23 (letter of notification) 10,000 shares of common stock (par \$10) of which 8,000 shares are first to be offered for a period of 30 days in exchange for outstanding preferred stock on a 2-for-1 basis; any shares remaining will be offered to common stockholders. Price—\$25 per share. Office—Third and Market Sts., Camden, N. J. Underwriter—None.

Western Massachusetts Companies
May 29 filed 102,237 shares of common stock (par \$1), of which 92,237 shares are being offered for subscription by common stockholders of record June 21 on the basis of one new share for each 12 shares held; rights to expire on July 9. The remaining 10,000 shares are being offered to employees. Price—\$37.50 per share. Proceeds—To repay bank loans and for construction program. Underwriters—The First Boston Corp. and White, Weld & Co., both of New York.

Western Securities Corp. of New Mexico
Feb. 13 (letter of notification) 50,000 shares of common stock. Price—At par (\$1 per share). Proceeds—To start a dealer or brokerage business. Office—921 Sims Bldg., Albuquerque, N. M. Underwriter—None.

Wheland Co., Chattanooga, Tenn. (7/3)

May 23 filed \$2,000,000 of convertible subordinated debentures due June 1, 1976, and 136,000 shares of common stock (par \$5). Of the latter, 75,000 are to be offered for the company's account and 61,000 shares for a selling stockholder. Price—To be supplied by amendment. Proceeds—Together with proceeds from private sale of \$1,500,000 4½% first mortgage bonds and \$900,000 of 3-year unsecured 4½% notes to a group of banks, will be used to retire outstanding series A and series B 5% first mortgage bonds, and for expansion program. Underwriters—Hemphill, Noyes & Co., New York; Courts & Co., Atlanta, Ga.; and Equitable Securities Corp., Nashville, Tenn.

White Sage Uranium Corp.

Feb. 13 (letter of notification) 15,000,000 shares of capital stock. Price—At par (one cent per share). Proceeds—For mining expenses. Office—547 East 21st South St., Salt Lake City, Utah. Underwriter—Empire Securities Corp., Salt Lake City, Utah.

Williamson Co., Cincinnati, Ohio

Feb. 20 (letter of notification) 20,666 shares of class B common stock (par \$1) to be offered for subscription by class B common stockholders on a 1-for-7 basis. Price—\$6.84 per share. Proceeds—For working capital. Office—3500 Maison Road, Cincinnati, Ohio. Underwriter—None.

Wilmington Country Club, Inc., Wilmington, Del.

April 2 filed \$1,500,000 of non-interest bearing debentures, due 1991, to be offered to the members of the Club. Price—At par (\$1,000 per debentures). Proceeds—For construction of a golf house and other improvements. Underwriter—None.

Wisconsin Wood Products, Inc.

June 25 filed 74,016 shares of common stock (par \$5) to be offered initially for sale to the present stockholders. It is not expected that more than 42,500 shares will be sold immediately. Price—\$10 per share. Proceeds—For lease of plant and purchase of equipment. Office—Phillips, Wis. Underwriter—None.

Woods Oil & Gas Co., New Orleans, La.

Aug. 29 filed 400,000 shares of common stock (par \$1). Price—\$5 per share. Proceeds—To retire outstanding obligations. Underwriters—Woolfolk & Shober and Howard, Weil, Labouisse, Fredricks & Co., both of New Orleans, La. Offering—Tentatively deferred. Statement effective Feb. 28.

Wycotah Oil & Uranium, Inc., Denver, Colo.

Nov. 10 filed 1,500,125 shares of common stock (par one cent) to be offered only to the owners of percentages of working interests in certain oil and gas leases and to the owners of certain uranium properties, and in exchange for such working interests and properties. Price—Shares to be valued at an arbitrary price of \$4 per share. Proceeds—To acquire properties. Underwriter—None.

Yale & Towne Manufacturing Co. (7/6-9)

June 14 filed 271,167 shares of capital stock (par \$10) to be offered for subscription by stockholders of record July 6 on the basis of one new share for each seven shares held; rights to expire on July 23. Price—To be supplied by amendment. Proceeds—For expansion program. Underwriter—Morgan Stanley & Co., New York.

Youngstown Sheet & Tube Co.

June 5 filed 22,977 shares of common stock (no par) being offered in exchange for common stock of Emsco Manufacturing Co. on the basis of one share of Youngstown for each three shares of Emsco; offer will expire on Aug. 8. Youngstown presently owns 388,853 shares, representing 84.94% of the 457,786 outstanding shares of Emsco common stock.

Zapata Off-Shore Co.

May 22 filed \$2,350,000 of 5½% subordinated debentures due June 1, 1971 to be offered for subscription by common stockholders. Price—At 100% of principal amount. Proceeds—For general corporate purposes. Office—Houston, Tex. Underwriter—G. H. Walker & Co., St. Louis, Mo., on a best-efforts basis.

Prospective Offerings

Air-Vue Products Corp., Miami, Fla.

Feb. 20 it was reported early registration is expected of 150,000 shares of common stock. Price—Around \$4.25 per share. Proceeds—For expansion program. Underwriter—Arthur M. Krensky & Co., Inc., Chicago, Ill.

American Petrofina, Inc.

June 14 it was announced that following proposed merger with Panhandle Oil Corp., American Petrofina, Ltd. will offer to stockholders of Panhandle and Petrofina of Belgium and to Canadian Petrofina the opportunity to subscribe to additional "A" stock of American Petrofina. Price—\$11 per share. Underwriters—White, Weld & Co.; Blyth & Co., Inc.; and Hemphill, Noyes & Co.

Black Hills Power & Light Co.

June 16 company applied to Federal Power Commission for authority to offer an aggregate of \$300,000 of common stock for subscription by its stockholders. Proceeds—For new construction, etc. Underwriter—None.

Blackstone Valley Gas & Electric Co.

April 30 it was reported company plans to issue 25,000 shares cumulative preferred stock (par \$100). Proceeds—To reduce bank loans. Underwriter—To be determined by competitive bidding. Probable bidders: W. C. Langley & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Harriman Ripley & Co., Inc. Bids—Expected to be received sometime in July.

Braniff Airways, Inc.

April 11 company authorized an offering to stockholders of 1,105,545 additional shares of common stock (par \$2.50) on the basis of three new shares for each five shares held (with an oversubscription privilege). On May 24, the company announced the number of shares to be offered is expected to be reduced and the offering date extended. Proceeds—For general corporate purposes. Underwriter—F. Eberstadt & Co., New York.

California Electric Power Co.

May 14 it was announced company plans an offering of first mortgage bonds late in 1956, if market and other conditions are then favorable. Proceeds—For construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp. and Salomon Bros. & Hutzler (jointly); Lehman Brothers; White, Weld & Co.

Carolina Power & Light Co. (9/11)

March 22 it was announced company plans to issue and sell \$15,000,000 of first mortgage bonds due 1986. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); W. C. Langley & Co. and The First Boston Corp. (jointly); Equitable Securities Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly). Bids—Scheduled for Sept. 11.

Carpenter Paper Co.

May 10 it was reported company is understood to be planning the sale of some additional common stock. Underwriter—Kidder, Peabody & Co., New York.

Central Illinois Light Co.

May 14 it was reported company plans to issue and sell \$18,000,000 first mortgage bonds in 1957. Proceeds—For construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.; Union Securities Corp.; The First Boston Corp.; Harriman Ripley & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Stone & Webster Securities Corp. (jointly).

Central Illinois Light Co.

May 14 it was reported company plans to issue and sell about 80,000 shares of cumulative preferred stock (par \$100) later this year. Proceeds—To repay bank loans and for new construction. Underwriter—May be Union Securities Corp., New York.

Central Illinois Public Service Co.

May 16, M. S. Luthringer, President, said the new money required to finance the company's 1956 construction program is estimated at about \$5,000,000 and will be obtained from the sale of securities in the second half of this year. The class of security to be sold and the exact timing of the transaction have not been determined. It is also possible, if favorable money conditions prevail at the time, that some portion of the 1957 requirements for new money may be obtained in the second half of this year. Underwriter—To be determined by competitive bidding. Probable bidders: (1) For bonds—Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co. and A. C. Allyn & Co. Inc. (jointly); Salomon Bros. & Hutzler; Blyth & Co., Inc.; Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blair & Co. Incorporated; Equitable Securities Corp. (2) For preferred stock—Lehman Brothers and Bear, Stearns & Co. (jointly); Blyth & Co., Inc. and The First Boston Corp. (jointly); Kidder, Peabody & Co. and Union Securities Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane. (3) For common stock—Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co.; The First Boston Corp.; Lehman Brothers and Bear, Stearns & Co. (jointly). Common stock will probably be offered first for subscription by stockholders.

Coastal Transmission Corp., Houston, Texas

Feb. 29 it was announced an application has been filed with the FPC for construction of a 565.7 mile pipeline system to cost \$68,251,000. Underwriters—May be Lehman Brothers and Allen & Co., both of New York.

Columbia Gas System, Inc. (10/2)

Feb. 15 it was announced company may issue and sell \$30,000,000 of debentures. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. Bids—Expected to be received on Oct. 2.

Commercial Credit Corp.

March 12 it was reported company plans early registration of about \$25,000,000 of junior subordinated debentures. Underwriter—Kidder, Peabody & Co. and The First Boston Corp., both of New York.

Consolidated Natural Gas Co. (8/28)

June 12 it was announced company plans to issue and sell \$30,000,000 of debentures due 1981. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and The First Boston Corp. (jointly); White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly). Bids—Expected to be received up to 11 a.m. (EDT) on Aug. 28. Registration—Now planned for July 16.

Consumers Power Co. (8/14)

June 19 company filed an application with the Michigan P. U. Commission for authority to issue and sell \$40,000,000 of first mortgage bonds to mature not earlier than June 1, 1986. Proceeds—For reduction of bank loans and for new construction. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart

& Co. Inc.; Harriman Ripley & Co. Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co.; White, Weld & Co. and Shields & Co. (jointly). Bids—Scheduled to be opened at 11:30 a.m. (EDT) on Aug. 14. Registration—Expected on July 20.

Copeland Refrigeration Corp. (7/23-27)

May 10 it was reported company plans to issue and sell 100,000 shares of common stock. Proceeds—For expansion program. Underwriter—Baker, Simonds & Co., Detroit, Mich. Offering—Expected last week in July. Registration—Planned for latter part of June.

Crane Co., Chicago, Ill.

F. F. Elliott, President, on March 18 stated in part: "To meet the cost of present proposed capital expenditures, it appears that some additional financing may be necessary." Underwriters—Morgan Stanley & Co. and Clark, Dodge & Co.

Detroit Edison Co.

Feb. 20, Walker L. Cisler, President stated that "tentative plans are that about \$60,000,000 will be obtained from investors in 1956. Internal funds and bank borrowings will probably provide for the remainder of the \$95,000,000 necessary this year to carry forward the company's program of expansion of facilities." Financing may be in form of 15-year debentures to common stockholders. Underwriters—None. Offering—Tentatively expected in October.

Dolly Madison International Foods Ltd.

Nov. 15 it was announced that Foremost Dairies, Inc. intends at a future date to give its stockholders the right to purchase its Dolly Madison stock. Underwriter—Allen & Co., New York.

Du Mont Broadcasting Corp.

Aug. 10 it was announced that corporation, following issuance on Dec. 2 to stockholders of Allen B. Du Mont Laboratories, Inc. of 944,422 shares of common stock as a dividend, contemplates that additional shares will be offered to its stockholders. This offering will be underwritten. Kuhn, Loeb & Co. and Van Alstyne, Noel & Co. handled Du Mont Laboratories class A stock financing some years ago. Stockholders of Laboratories on Oct. 10 approved formation of Broadcasting firm.

Eastern Shopping Centers, Inc.

May 7 it was announced this company has been formed to locate and develop shopping centers east of the Mississippi, the funds to come from an offering of stock, one-third to Grand Union Co. and the balance to be offered to Grand Union stockholders. Office—East Paterson, N. J. Underwriters—Morgan Stanley & Co. and W. E. Hutton handled new financing by Grand Union Co. in 1954.

Eternalite, Inc., New Orleans, La.

May 28 it was reported company plans to issue and sell about 200,000 shares of class A stock. Price—Around \$4.50 per share. Underwriter—Vickers Brothers, New York.

Fairchild Camera & Instrument Corp.

June 11, John H. Clough, President, announced that working capital financing will be required in the near future. Underwriter—Glore, Forgan & Co., New York.

General Acceptance Corp.

April 2 it was reported company plans to issue and sell \$15,000,000 of debentures due in 1966, \$10,000,000 of capital debentures due in 1971 and about \$3,500,000 of common stock. Underwriters—Paine, Webber, Jackson & Curtis and Union Securities Corp. Registration—Expected late in May.

General Contract Corp., St. Louis, Mo.

April 18 it was announced that company plans \$5,000,000 additional financing in near future. Proceeds—To go to Securities Investment Co., a subsidiary. Underwriter—G. H. Walker & Co., St. Louis, Mo.

General Public Utilities Corp.

April 2, A. F. Tegen, President, said that the company plans this year to issue and sell \$28,500,000 of new bonds and \$14,000,000 of new preferred stock. It is also possible that a new issue of common stock will be offered for subscription by common stockholders before April, 1957. Proceeds—To repay bank loans, etc., and for construction program.

General Tire & Rubber Co.

Feb. 24 stockholders approved a proposal to increase authorized common stock to 2,500,000 from 1,750,000 shares and the authorized preference stock to 1,000,000 from 350,000 shares; also a proposal that any issue of debentures may include a privilege to convert into common stock and permit the company to issue warrants to purchase common stock, provided the total that may be outstanding at any one time does not exceed 600,000 shares. [The company expects to issue 23,000 additional preference shares—5,000 for acquiring stock and property and 18,000 for cash. Having completed long-term borrowing negotiations of \$30,000,000 from insurance companies, the company expects to sell not more than \$15,000,000 in debentures.] Underwriter—Kidder, Peabody & Co., New York.

Houston Texas Gas & Oil Corp., Houston, Texas

Feb. 29 it was announced an application has been filed with the FPC for permission to construct a 961 mile pipeline system to cost \$105,836,000. Underwriters—May be Blyth & Co., Inc., San Francisco, Calif.; and Scharff & Jones, Inc., New Orleans, La.

Inland Steel Co.

April 26, Joseph L. Block, President, disclosed company will seek additional financing through sale of equity stock (the method and amount has not yet been determined). Proceeds—For expansion program. Underwriter—Kuhn, Loeb & Co., New York.

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Johns-Manville Corp.

March 9, Leslie M. Cassidy, Chairman, said the corporation is studying possibilities for expansion that could require financing, adding that the management had no definite plan for the issuance of additional stock other than those required for the two-for-one split but "the situation could change."

Jersey Central Power & Light Co.

Feb. 6 it was reported company may in July 1956, issue and sell \$9,000,000 first mortgage bonds. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; White, Weld & Co.; Kidder, Peabody & Co.; Union Securities Corp.; Salomon Bros. & Hutzler and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blair & Co. Incorporated.

Kaiser Steel Corp.

May 21 it was announced that the company is arranging to borrow \$100,000,000 from institutional investors to finance its new major expansion program to involve approximately \$113,000,000. Underwriter—The First Boston Corp., New York.

Kansas City Power & Light Co.

April 24 stockholders approved a proposal increasing bonded indebtedness of the company by \$20,000,000. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Equitable Securities Corp.; White, Weld & Co. and Shields & Co. (jointly); Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly). Amount and timing has not yet been determined (probably not until first half of 1957).

Kimberly-Clark Corp., Neenah, Wis.

Nov. 22 it was announced that the company plans further financing, the nature and extent of which has not yet been determined, except it is not the present intention to sell additional common stock. Proceeds—To be used to pay for further expansion, estimated to cost an additional \$37,000,000. Underwriter—Blyth & Co., Inc., New York.

Long Island Lighting Co.

April 17 it was announced company plans to issue and sell next Fall \$20,000,000 to \$25,000,000 first mortgage bonds. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Blair & Co., Incorporated and Baxter, Williams & Co. (jointly); Smith, Barney & Co.

★ Meadowbrook National Bank, West Hempstead, New York

June 25 it was announced that the stockholders on July 12 will vote on approving a proposal to offer to stockholders 104,500 additional shares of capital stock (par \$5) on a 1-for-13 basis. Proceeds—For expansion. Underwriter—Lee Higginson Corp., New York.

Metropolitan Edison Co.

Feb. 6 it was reported that company is considering the sale of additional first mortgage bonds later this year (probably about \$5,000,000—in July or August). Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Drexel & Co. (jointly); The First Boston Corp.

Metropolitan Edison Co.

April 16 it was reported company may issue in July or August, depending upon market conditions, about \$5,000,000 of preferred stock (in addition to about \$5,000,000 of bonds). Underwriter—For preferred stock also to be determined by competitive bidding. Probable bidders: Smith, Barney & Co. and Goldman, Sachs & Co. (jointly); Salomon Bros. & Hutzler; Harriman Ripley & Co. Inc. and Union Securities Corp. (jointly); Kidder, Peabody & Co. and Drexel & Co. (jointly); The First Boston Corp.

Michigan Bell Telephone Co.

April 19 company applied to the Michigan P. S. Commission for permission to issue and sell \$30,000,000 of 40-year debentures later this year. Proceeds—For construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Michigan, Wisconsin Pipe Line Co.

June 12 it was announced company plans to issue and sell this Summer \$25,000,000 of first mortgage bonds due 1976. Proceeds—For expansion program. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. Inc.; Blyth & Co., Inc.

Minneapolis Gas Co.

April 16 stockholders approved an increase in the authorized common stock (par \$1) from 1,700,000 shares to 2,500,000 shares. Previous offer to stockholders was underwritten by Kalman & Co., St. Paul, Minn.

National Steel Corp.

March 12 the company announced that it is estimated that total construction expenditures planned to start in the current year and to be completed in mid-1959 will amount to a minimum of \$200,000,000. Underwriters—Kuhn, Loeb & Co.; Harriman Ripley & Co. Inc.; and The First Boston Corp.

Natural Gas Pipe Line Co. of America

Feb. 20 it was reported company plans to issue and sell late this Spring \$35,000,000 of first mortgage bonds due 1976. Underwriter—If determined by competitive bidding,

the following may bid: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Lehman Brothers and Union Securities Corp. (jointly).

New England Electric System

Jan. 3 it was announced company plans to merge its subsidiaries, Essex County Electric Co., Lowell Electric Light Corp., Lawrence Electric Co., Haverhill Electric Co. and Amesbury Electric Light Co., into one company during 1956. This would be followed by a \$20,000,000 first mortgage bond issue by the resultant company, the name of which has not as yet been determined. Underwriter—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler, Union Securities Corp. and Wood, Struthers & Co. (jointly); Lehman Brothers; The First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly).

New England Power Co.

Jan. 3 it was announced company plans to issue and sell \$10,000,000 of first mortgage bonds during October of 1956. Underwriters—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler, Union Securities Corp. and Wood, Struthers & Co. (jointly); Lehman Brothers; The First Boston Corp.; Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly).

★ New England Telephone & Telegraph Co. (8/29)

June 20 directors authorized an offering to stockholders of 613,010 additional shares of capital stock (par \$100) at the rate of one new share for each five shares held as of Aug. 29. American Telephone & Telegraph Co. owns 69.21% of outstanding stock. Proceeds—To repay temporary borrowings. Underwriter—None.

New York Central RR.

Bids were received by the company up to noon (EDT) on June 5 for the purchase from it of \$6,600,000 equipment trust certificates, due annually from Dec. 15, 1956 to 1970, inclusive. [These certificates had been purchased by Despatch Shops, Inc., a subsidiary, on Dec. 28, 1955.] The bids were rejected.

North American Aviation, Inc.

June 8, it was announced company plans to offer to its stockholders rights to subscribe for additional capital stock (following proposed 2-for-1 split up to be voted upon Aug. 3). Underwriter—Morgan Stanley & Co., New York.

Northern Indiana Public Service Co.

March 13 it was reported company plans to spend about \$52,000,000 for new construction in 1956 and 1957 (\$29,000,000 in 1956 and \$23,000,000 in 1957). Of the total about \$30,000,000 will be obtained from new financing, a part of which is expected to include about \$14,846,200 of preference preferred stock to be offered first to common stockholders. Underwriters—For any preferred stock, Central Republic Co. Inc., Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane (jointly). Bonds may be placed privately.

Northern Natural Gas Co.

March 12 it was reported company plans to finance its 1956 construction program (costing about \$40,000,000) through issuance of debt securities and treasury funds. Underwriter—Probably Blyth & Co., Inc.

Northern States Power Co. (Minn.)

Jan. 19 it was announced company plans to issue and sell later this year \$20,000,000 of first mortgage bonds due 1986. Proceeds—For construction program. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and The First Boston Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp. and Union Securities Corp. (jointly); Smith, Barney & Co.; Lehman Brothers and Riter & Co. (jointly); and Glorie, Forgan & Co.

Norwalk Truck Lines, Inc.

June 5 it was announced company has applied to the ICC for authority to issue and sell \$2,000,000 10-year 5% convertible debentures (to be convertible into class B common stock, par \$1, beginning June 15, 1957). Proceeds—About \$1,000,000 for working capital and the remainder to be advanced to Shirks Motor Express Corp., Lancaster, Pa. Underwriter—The Ohio Company, Columbus, Ohio.

Offshore Gathering Corp., Houston, Texas

Nov. 18 David C. Bintliff, President, announced company has filed an application with the Federal Power Commission for a certificate of necessity to build a 364-mile submarine gas pipeline off-shore the coast of Louisiana from the Sabine River to the Gulf Coast of the State of Mississippi. It is estimated that this gathering system will cost approximately \$150,000,000. Type of financing has not yet been determined, but tentative plans call for private sale of first mortgage bonds and public offer of about \$40,000,000 of securities (probably notes, convertible into preferred stock at maturity, and common stock). Underwriter—Salomon Bros. & Hutzler, New York.

Oklahoma Gas & Electric Co.

May 17 stockholders voted to increase the authorized preferred stock from 240,000 shares to 500,000 shares and the authorized common stock from 3,681,000 shares to 5,000,000 shares. Company has no immediate plan to do any equity financing. Underwriters—(1) for any common stock (probably first to stockholders)—Merrill Lynch, Pierce, Fenner & Beane. (2) For preferred stock, to be determined by competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and White,

Weld & Co. (jointly); The First Boston Corp.; Lehman Brothers and Blyth & Co., Inc. (jointly); Smith, Barney & Co.; Kuhn, Loeb & Co.; Harriman Ripley & Co. Inc.

Pacific Northwest Pipeline Corp.

March 20 C. R. Williams, President, announced that about 280,000 shares of common stock (par \$1) are to be sold in connection with subscription contracts which were entered into at the time of the original financing in April of 1955. Price—\$10 per share. Proceeds—Together with funds from private sale of \$35,000,000 additional first mortgage bonds, and \$10,000,000 of 5.6% interim notes and borrowings from banks, will be used to construction program. Underwriters—White, Weld & Co.; Kidder, Peabody & Co.; The Dominion Securities Corp.; and Union Securities Corp. Registration—Expected soon.

Pacific Telephone & Telegraph Co. (8/21)

May 31 the company sought approval of the California P. U. Commission to issue and sell \$78,000,000 of 32-year debentures due Aug. 15, 1988. Proceeds—To reduce temporary borrowings and for capital expenditures. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. Bids—Tentatively scheduled to be received up to 8:30 a.m. (PDT) on Aug. 21. Registration—Expected July 27.

Pacific Telephone & Telegraph Co.

May 31 company sought authority from the California P. U. Commission to offer 1,562,267 additional common shares to common and preferred stockholders on a 1-for-6 basis. American Telephone & Telegraph Co. owns an aggregate of 89.6% of the preferred and common stock. Price—At par (\$100 per share). Proceeds—To repay temporary borrowings and for new construction. Underwriter—None.

Pan Cuba Oil & Metals Corp. (Del.)

April 9, Walter E. Seibert, President, announced that company will soon file a registration statement with the SEC preparatory to an equity offering planned to take place later this year. Business—To explore, drill and operate oil, gas and mineral properties in the United States, Cuba and Canada. Office—120 Broadway, New York, N. Y.

Pittsburgh Rys. Co.

May 4 it was announced that Standard Gas & Electric Co. will offer to its stockholders rights to subscribe for 540,651.75 shares of Pittsburgh Rys. Co. Price—About \$6 per share.

Public Service Electric & Gas Co.

April 16, Lyle McDonald, Chairman, estimated that requirements for new capital this year will be approximately \$80,000,000 to \$85,000,000. The types and amounts of the new securities to be issued and the time of sale have not been determined. Proceeds—To help finance construction program. Underwriters—For any debenture bonds—may be determined by competitive bidding; probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co., and Lehman Brothers (jointly); Morgan Stanley & Co. and Drexel & Co. (jointly).

Puget Sound Power & Light Co.

Feb. 15 the company announced that it estimates that its construction program for the years 1956-1959 will amount to \$87,000,000, including \$20,000,000 budgeted for 1956. This large expansion, the company says, can be financed wholly by debt and from internal sources. Underwriter—If determined by competitive bidding, may include Halsey, Stuart & Co. Inc.; The First Boston Corp.

Rochester Gas & Electric Corp.

May 16 stockholders approved a proposal to increase the authorized preferred stock by 100,000 shares (par \$100), of which it is planned to issue 50,000 shares later in 1956. Underwriter—The First Boston Corp., New York.

Rochester Telephone Corp.

May 28 it was reported company has applied to the New York P. S. Commission for authority to issue and sell 40,000 shares of cumulative preferred stock (par \$100). Underwriter—The First Boston Corp., New York.

South Carolina Electric & Gas Co.

March 9, S. C. McMeekin, President, announced that it is expected that \$10,000,000 of new money will be required in connection with the company's 1956 construction program. The company proposes to obtain a part of its new money requirements from the sale of \$5,000,000 of preferred stock and the balance from the private sale of \$5,000,000 principal amount of bonds. Underwriter—Kidder, Peabody & Co., New York.

Southern Counties Gas Co. of California

Jan. 30 it was reported company may in the Fall offer \$15,000,000 of first mortgage bonds. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane.

Southern Electric Generating Co.

May 18, it was announced that this company, 50% owned by Alabama Power Co. and 50% by Georgia Power Co., subsidiaries of Southern Co., plans to issue debt securities. Proceeds—Together with other funds, to construct and operate a \$150,000,000 steam electric generating plant on the Coosa River in Alabama. Underwriter—May be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Equitable Securities Corp. and Drexel & Co. (jointly); Lehman Brothers; Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Morgan Stanley & Co.

Southern Union Gas Co.

April 19 it was announced company is considering issuance and sale to stockholders later this year of some additional common stock on a pro rata basis (with an oversubscription privilege). Underwriter—None.

Southwestern Resources, Inc.

May 15 it was reported that the company plans to issue and sell 1,000,000 shares of common stock. Price—Around \$5 per share. Underwriters—Southwestern Securities Co., Dallas, Tex.; and Mountain States Securities Corp., Denver, Colo.

Spencer Telefilm Corp., Beaumont, Texas

Jan. 16 it was announced company plans to offer publicly to Texas residents 75,000 shares of capital stock. Price—\$1.50 per share. Business—To produce, sell and distribute syndicated films for television. Underwriter—Porter-Stacy Co., Houston, Tex.

Stevens (J. P.) & Co., Inc.

May 28 it was announced company plans to offer publicly sometime this summer \$30,000,000 of debentures. Proceeds—To repay short-term bank loans and for general corporate purposes. Underwriter—Goldman, Sachs & Co., New York.

Super-Crete, Ltd., Boniface, Manitoba, Canada

May 14 it was reported company plans sale of 255,000 shares of common stock late in June. Underwriter—Straus, Blosser & McDowell, Chicago, Ill.

sell some additional stock (probably at the end of May), **Tampa Electric Co. (10/1)** Feb. 18 it was reported company may issue and sell around Oct. 1, \$10,000,000 of first mortgage bonds. Proceeds—For construction program. Underwriter—To be

determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.; Goldman, Sachs & Co.; Kidder, Peabody & Co.

Tennessee Gas Transmission Co.

May 10, Gardiner Symonds, President, announced that company plans to sell \$30,000,000 of debentures in July (see a preceding column) and about \$50,000,000 of mortgage bonds late in the third quarter or early in the fourth quarter of 1956. Proceeds—For expansion program. Underwriters—Stone & Webster Securities Corp., White, Weld & Co. and Halsey, Stuart & Co. Inc.

Transcontinental Gas Pipe Line Corp.

April 17, Tom P. Walker, President, announced that negotiations had been completed for the sale of \$40,000,000 first mortgage pipe line bonds in May and \$20,000,000 of debentures in November. May be placed privately. Proceeds—To retire presently outstanding \$60,000,000 bank loan.

U-Kan Minerals, Inc. (Kansas)

May 28 it was reported company plans issue and sale of 600,000 shares of common stock. Proceeds—For oil and mineral development. Underwriter—E. R. Bell Co., Kansas City, Mo.

United Illuminating Co., New Haven, Conn.

May 29, William C. Bell, President, announced that the company proposes to issue not more than \$12,500,000 of cumulative preferred stock (par \$100), out of a proposed authorized issue of \$20,000,000. The stockholders will vote June 28 on approving the proposed financing. Proceeds—Together with short term bank loans, will be used to complete the 1956 to 1958 construction program. Underwriter—Chas. W. Scranton & Co., New Haven, Conn.

United States Rubber Co.

May 25 it was announced that stockholders will vote June 29 on amending the company's certificate of organization permitting it to issue convertible debentures, which would first be offered for subscription by common stockholders. It is estimated that \$50,000,000 to \$60,000,000 of new funds will probably be required. Proceeds—For maintenance of its business and properties and for working capital. Underwriter—Kuhn, Loeb & Co., New York.

Virginia Electric & Power Co. (9/25)

Feb. 6 it was announced company plans to issue and sell \$20,000,000 of first and refunding mortgage bonds. Underwriter—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., American Securities Corp. and Wertheim & Co. (jointly); Salomon Bros. & Hutzler; Stone & Webster Securities Corp.; White, Weld & Co.; Union Securities Corp. Bids—To be opened on Sept. 25.

Vita Food Products, Inc., New York

June 4 it was reported offering is expected in near future of over 70,000 shares of common stock. Underwriter—Granbery, Marache & Co., New York. Registration—Expected soon.

Washington Gas Light Co.

June 7 it was announced company proposes to finance proposed new construction of pipeline in Virginia to cost about \$3,380,000 from funds generated by operations, sale of common stock and temporary bank borrowings. Underwriter—The First Boston Corp., New York; and Johnston, Lemon & Co., Washington, D. C.

Our Reporter's Report

The corporate new issue market was taking a "breather" this week while the industry put its house in order for the larger schedule of business in prospect a fortnight ahead.

American Telephone & Telegraph Co.'s \$250 million issue of new debentures, plus Tennessee Gas Transmission Co.'s \$30 million of debentures and several smaller undertakings will tend to keep the rank and file busier in that period.

But all things considered this week's new offerings met rather encouraging demand, particularly Capital Airlines, \$12 million of 20-year debentures brought out yesterday.

Carrying a 4½% coupon this issue was priced at 101½ and accrued interest, for an indicated yield of roughly 4.19%, moved quickly to a premium, but not before a momentary lag.

The maturity, 20-years, plus the conversion feature, a sinking fund, and optional redemption provisions, all tended to make the issue attractive to buyers. The conversion feature was especially prominent since the stock, into which the debentures may be converted at 33½, actually sold above that level on Tuesday.

This naturally gave a real element of value to the conversion provision as an added speculative appeal for buyers of the issue.

Carry Investor Appeal

The marketing of three separate issues carrying the guarantee of the Province of British Columbia likewise were reported moving out in good fashion.

This \$40 million overall undertaking included \$20 million of British Columbia Power Commission debentures, due 1986, priced at 98½ to yield 3.835%; \$10 million Pacific Great Eastern Ry. debentures, due 1981, priced at 98¼ to yield 3.86% and \$10 million of British Columbia Toll Highways and Bridges Authority debentures, due 1976, priced at 98¾ to yield 3.84%. All carried a 3½% coupon rate.

While it was still possible to get a few bonds, dealers reported demand good and steady in tone.

Big Secondary Moves Well

One of the week's largest deals was that involving a block of 425,000 shares of Texas Co. capital stock. Moved as a secondary offering, this block, taken at the price fixed by the offering group, had an indicated value of \$27.3 million.

Offered right on the prevailing market price, the stock was reported to be moving to investors quite rapidly and without apparent effect on the outstanding shares.

It was one of the biggest secondary undertakings in recent weeks and found the backdrop satisfactory since the market was at least in an uptrend in contrast with recent heaviness.

In the Offing

The biggest straight financing on tap next week takes the form of \$20 million of Florida Power Co. bonds which are due up for bids on Monday.

St. Louis & San Francisco Ry.'s big exchange offer of new debentures and common stock for its outstanding class A preferred stock is slated to get underway in the same period.

Meantime, National Research Corp.'s \$6,000,000 of debentures, to be offered by the negotiated route, is expected to reach the market in about two weeks.

Hentz Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, Fla.—Raymond F. Barron has been added to the staff of H. Hentz & Co., 414 Seventy-first Street.

Makris Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, Fla.—Lincoln Fowler has become connected with Makris & Kakouris, Ainsley Building.

With Anderson Cook

(Special to THE FINANCIAL CHRONICLE)

PALM BEACH, Fla.—Jay B. McLaughlin has been added to the staff of Anderson Cook Company, Inc., 308 So. County Road.

With Eastern Secs.

(Special to THE FINANCIAL CHRONICLE)

PENSACOLA, Fla.—James H. Estes has become affiliated with Eastern Securities Corporation of Jacksonville, North Carolina.

With King Merritt

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, Maine—Dudley C. Dunphe is now with King Merritt & Co., Inc., Casco Bank Building.

Joins Goodbody Staff

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, Fla.—John L. Munoz has joined the staff of Goodbody & Co., 218 Beach Drive, North.

J. A. Hogle Adds

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, Calif.—Elliott K. Wolcott is now connected with J. A. Hogle & Co., 1030 Sixth Ave.

H. L. Jamieson Adds

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, Calif.—Henry T. Adams, Jr., Kaare O. Asper, Jr., Mark L. Insko and Harold A. Langstaff Jr. are now affiliated with H. L. Jamieson Co., Inc., 2144 El Cajon Boulevard. Mr. Insko was formerly with Francis I. du Pont & Co.

William R. Staats Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Paul Metza and Roy S. Redmond are now connected with William R. Staats & Co., 640 South Spring Street, members of the New York and Los Angeles Stock Exchanges.

Joins E. F. Hutton

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Louis A. Lombard is now with E. F. Hutton & Company, 623 South Spring Street.

Joins Oscar F. Kraft

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, Calif.—Daniel L. Beren is now connected with Oscar F. Kraft & Co., 530 West Sixth Street.

Murray W. Feldman Opens

Murray W. Feldman is conducting a securities business from offices at 2 Broadway, New York City.

Forms J. C. Graye Co.

James C. Graye has formed J. C. Graye Co. with offices at 15 Maiden Lane, New York City to engage in a securities business.

Forms Great Eastern Inv.

BAYSIDE, N. Y.—Francis W. Whalen and Roger Fred have formed Great Eastern Investment Co. with offices at 67-17 218th Street to engage in a securities business.

James Brady Jr. With Edward D. Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, Mo.—James P. Brady, Jr. has become associated with Edward D. Jones & Co., 300 North Fourth Street, members of the New York and Midwest Stock Exchanges. Mr. Brady for many years has been associated with The Boatmen's National Bank of St. Louis.

Kimball & Co. Formed

Joseph C. Kimball and Leo Raymond have formed Kimball & Co. with offices at 80 Broad Street, New York City, to engage in a securities business.

Torrente, Giglio Opens

BROOKLYN, N. Y.—Torrente, Giglio Company has been formed with offices at 2337 East 23rd Street, to engage in a securities business. Partners are Luca Giglio and Frank Torrente.

May Building Permits at Record High Level

Building permit values for May were the highest for any similar period on record and the highest for any previous month since June, 1956, Dun & Bradstreet, Inc., states. The May aggregate for 217 cities including New York was \$596,114,034, a rise of 5.4% above the \$565,327,637 for May a year ago, and of 13.7% above the April sum of \$524,093,168.

Building plans recorded in New York City during May were valued at \$70,889,351 and represented an increase of 7.8% from \$65,782,634 in May last year. It was more than double the \$33,453,589 of a month earlier.

May Business Failures Up 22% From Last Year

Business failures climbed 18% in May to 1,164, slightly below the post-war peak of 1,170 in March and 22% above a year ago. Failures were more numerous than in any May since 1940.

Failures occurred at the rate of 49 for each 10,000 enterprises listed in the Dun & Bradstreet "Reference Book," according to Dun's Failure Index. This was the highest rate for any month since 1942; it compared with 42 for each 10,000 in May, 1955, and 66 in pre-war 1940.

Liabilities rose more sharply than the number of casualties, increasing 43% to a post-war high of \$59,901,000. More businesses succumbed than in April in all size groups except the \$25,000 to \$100,000 class. Small casualties with losses of less than \$5,000 were the most numerous since 1942.

All major industries except construction had heavier casualties in May than in the preceding month. More businesses failed than a year ago in all industry and trade groups. The sharpest upturn from 1955 occurred in manufacturing, 46% above the previous May, and wholesaling, up 36%. Casualties among manufacturers exceeded a year ago in all industries, except iron and steel.

Failures in the Middle Atlantic states climbed to a post-war high. Tolls two or more times the 1955 level occurred in the West North Central, West South Central and Mountain states.



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AMERICAN CANCER SOCIETY

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

	Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:				
Indicated steel operations (percent of capacity)..... July 1	\$2,314,000	*2,290,000	2,370,000	1,716,000
Equivalent to—				
Steel ingots and castings (net tons)..... July 1	\$94.0	*93.0	96.3	71.1
AMERICAN PETROLEUM INSTITUTE:				
Crude oil and condensate output—daily average (bbls. of 42 gallons each)..... June 15	7,065,650	6,997,650	7,071,200	6,625,600
Crude runs to stills—daily average (bbls.)..... June 15	17,953,000	8,029,000	7,826,000	7,520,000
Gasoline output (bbls.)..... June 15	27,363,000	27,142,000	25,550,000	25,535,000
Kerosene output (bbls.)..... June 15	2,034,000	2,140,000	2,055,000	2,197,000
Distillate fuel oil output (bbls.)..... June 15	12,044,000	12,092,000	11,630,000	11,205,000
Residual fuel oil output (bbls.)..... June 15	7,563,000	8,041,000	8,220,000	8,109,000
Stocks at refineries, bulk terminals, in transit, in pipe lines—				
Finished and unfinished gasoline (bbls.) at..... June 15	181,487,000	184,409,000	186,753,000	165,285,000
Kerosene (bbls.) at..... June 15	23,793,000	22,503,000	19,931,000	28,435,000
Distillate fuel oil (bbls.) at..... June 15	84,996,000	80,637,000	68,496,000	91,269,000
Residual fuel oil (bbls.) at..... June 15	37,319,000	36,742,000	33,414,000	45,684,000
ASSOCIATION OF AMERICAN RAILROADS:				
Revenue freight loaded (number of cars)..... June 16	801,431	787,075	778,997	779,957
Revenue freight received from connections (no. of cars)..... June 16	651,826	631,141	664,222	653,505
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:				
Total U. S. construction..... June 21	\$443,517,000	\$511,922,000	\$310,263,000	\$412,067,000
Private construction..... June 21	305,516,000	319,619,000	150,293,000	225,458,000
Public construction..... June 21	138,001,000	192,303,000	159,970,000	186,609,000
State and municipal..... June 21	113,166,000	161,151,000	138,131,000	147,855,000
Federal..... June 21	24,835,000	31,152,000	21,839,000	38,754,000
COAL OUTPUT (U. S. BUREAU OF MINES):				
Bituminous coal and lignite (tons)..... June 16	10,280,000	*9,850,000	9,800,000	9,481,000
Pennsylvania anthracite (tons)..... June 16	538,000	529,000	420,000	569,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1947-49 AVERAGE = 100				
June 16	131	124	122	117
EDISON ELECTRIC INSTITUTE:				
Electric output (in 000 kwh.)..... June 23	11,478,000	11,425,000	10,927,000	10,226,000
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET, INC.				
June 21	245	286	273	205
IRON AGE COMPOSITE PRICES:				
Finished steel (per lb.)..... June 19	5.179c	5.179c	5.179c	4.797c
Pig iron (per gross ton)..... June 19	\$60.29	\$60.29	\$60.29	\$56.59
Scrap steel (per gross ton)..... June 19	\$44.83	\$44.83	\$49.67	\$35.33
METAL PRICES (E. & M. J. QUOTATIONS):				
Electrolytic copper..... June 20	45.075c	44.625c	45.575c	35.700c
Domestic refinery at..... June 20	40.400c	42.400c	43.000c	38.275c
Export refinery at..... June 20	94.750c	94.375c	97.000c	94.375c
Straits tin (New York) at..... June 20	16.000c	16.000c	16.000c	15.000c
Lead (New York) at..... June 20	16.000c	16.000c	16.000c	15.000c
Lead (St. Louis) at..... June 20	15.800c	15.800c	15.800c	14.800c
Zinc (East St. Louis) at..... June 20	13.500c	13.500c	13.500c	12.500c
MOODY'S BOND PRICES DAILY AVERAGES:				
U. S. Government Bonds..... June 26	94.41	95.27	95.41	96.11
Average corporate..... June 26	104.66	104.66	104.83	108.70
Aaa..... June 26	108.34	108.16	108.16	112.19
Aa..... June 26	106.56	106.56	106.74	110.52
A..... June 26	104.14	104.48	104.48	108.70
Baa..... June 26	99.68	100.00	100.16	103.97
Railroad Group..... June 26	103.13	102.96	103.47	107.44
Public Utilities Group..... June 26	105.00	105.17	105.17	109.24
Industrials Group..... June 26	105.69	106.04	105.86	109.79
MOODY'S BOND YIELD DAILY AVERAGES:				
U. S. Government Bonds..... June 26	2.93	2.86	2.85	2.70
Average corporate..... June 26	3.47	3.47	3.46	3.24
Aaa..... June 26	3.26	3.27	3.27	3.05
Aa..... June 26	3.36	3.36	3.35	3.14
A..... June 26	3.50	3.48	3.48	3.24
Baa..... June 26	3.77	3.75	3.74	3.51
Railroad Group..... June 26	3.56	3.57	3.54	3.31
Public Utilities Group..... June 26	3.45	3.44	3.44	3.21
Industrials Group..... June 26	3.41	3.39	3.40	3.18
MOODY'S COMMODITY INDEX				
June 26	414.5	414.7	416.1	406.6
NATIONAL PAPERBOARD ASSOCIATION:				
Orders received (tons)..... June 16	235,162	284,576	239,754	239,200
Production (tons)..... June 16	289,328	290,477	285,921	285,547
Percentage of activity..... June 16	99	97	97	99
Unfilled orders (tons) at end of period..... June 16	497,608	556,099	536,619	548,315
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1949 AVERAGE = 100				
June 22	108.05	108.65	108.94	106.73
STOCK TRANSACTIONS FOR ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON N. Y. STOCK EXCHANGE — SECURITIES EXCHANGE COMMISSION:				
Odd-lot sales by dealers (customers' purchases)—†				
Number of shares..... June 2	1,093,393	1,297,689	1,505,610	850,097
Dollar value..... June 2	\$55,850,219	\$68,176,848	\$82,759,993	\$44,941,752
Odd-lot purchases by dealers (customers' sales)—				
Number of orders—Customers' total sales..... June 2	780,237	1,135,277	1,220,665	818,788
Customers' short sales..... June 2	6,078	2,333	5,958	4,268
Customers' other sales..... June 2	774,159	1,127,944	1,214,707	814,520
Dollar value..... June 2	\$40,421,355	\$61,011,108	\$63,540,360	\$40,934,508
Round-lot sales by dealers—				
Number of shares—Total sales..... June 2	175,680	295,000	274,080	227,350
Short sales..... June 2				
Other sales..... June 2	175,680	295,000	274,080	227,350
Round-lot purchases by dealers—				
Number of shares..... June 2	483,540	467,070	590,860	294,000
TOTAL ROUND-LOT STOCK SALES ON THE N. Y. STOCK EXCHANGE AND ROUND-LOT STOCK TRANSACTIONS FOR ACCOUNT OF MEMBERS (SHARES):				
Total round-lot sales—				
Short sales..... June 2	427,710	387,030	506,510	333,960
Other sales..... June 2	8,703,810	11,921,680	13,300,590	9,794,750
Total sales..... June 2	9,131,520	12,308,710	13,807,100	10,128,710
ROUND-LOT TRANSACTIONS FOR ACCOUNT OF MEMBERS, EXCEPT ODD-LOT DEALERS AND SPECIALISTS:				
Transactions of specialists in stocks in which registered—				
Total purchases..... June 2	1,227,600	1,713,070	1,769,500	1,153,030
Short sales..... June 2	265,900	227,370	334,240	183,780
Other sales..... June 2	1,176,950	1,370,040	1,420,770	970,280
Total sales..... June 2	1,442,850	1,597,410	1,755,010	1,154,060
Other transactions initiated on the floor—				
Total purchases..... June 2	178,150	308,660	351,740	298,100
Short sales..... June 2	17,700	14,300	23,600	17,700
Other sales..... June 2	192,950	287,710	288,680	277,150
Total sales..... June 2	210,650	302,010	312,280	294,850
Other transactions initiated off the floor—				
Total purchases..... June 2	476,604	654,655	651,931	523,247
Short sales..... June 2	40,090	38,570	63,540	50,510
Other sales..... June 2	517,487	612,884	769,829	569,577
Total sales..... June 2	557,577	651,454	833,369	620,087
Total round-lot transactions for account of members—				
Total purchases..... June 2	1,882,354	2,676,385	2,773,171	1,974,377
Short sales..... June 2	323,690	280,240	421,380	251,990
Other sales..... June 2	1,887,387	2,270,634	2,479,279	1,817,007
Total sales..... June 2	2,211,077	2,550,874	2,900,659	2,068,997
WHOLESALE PRICES, NEW SERIES — U. S. DEPT. OF LABOR — (1947-49 = 100):				
Commodity Group—				
All commodities..... June 19	114.0	114.2	114.4	110.3
Farm products..... June 19	90.7	91.4	91.3	91.6
Processed foods..... June 19	101.9	102.5	102.3	103.6
Meats..... June 19	79.4	81.1	81.3	90.1
All commodities other than farm and foods..... June 19	121.4	121.4	121.7	115.7
AMERICAN PETROLEUM INSTITUTE—Month of March:				
Total domestic production (barrels of 42 gallons each).....	250,454,000	232,449,000	235,835,000	213,454,000
Domestic crude oil output (barrels).....	225,625,000	209,027,000	213,454,000	213,454,000
Natural gasoline output (barrels).....	24,790,000	23,382,000	22,303,000	22,303,000
Benzol output (barrels).....	39,000	40,000	40,000	40,000
Crude oil imports (barrels).....	28,942,000	24,584,000	22,989,000	22,989,000
Refined products imports (barrels).....	15,224,000	16,618,000	17,902,000	17,902,000
Indicated consumption domestic and export (barrels).....	294,698,000	281,707,000	274,619,000	274,619,000
Decrease all stock (barrels).....	78,000	8,056,000	12,107,000	12,107,000
ASSOCIATION OF AMERICAN RAILROADS—Month of May:				
Locomotive units installed in service.....	126	136	103	103
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of May:				
New England.....	\$26,774,123	\$34,202,468	\$34,946,386	\$34,946,386
Middle Atlantic.....	118,566,051	82,912,848	113,384,445	113,384,445
South Atlantic.....	57,389,673	42,741,264	57,641,519	57,641,519
East Central.....	144,388,829	127,956,638	116,977,846	116,977,846
South Central.....	90,481,087	83,340,551	85,854,855	85,854,855
West Central.....	39,352,525	36,165,613	44,169,443	44,169,443
Mountain.....	22,545,547	22,036,024	22,696,406	22,696,406
Pacific.....	96,616,199	94,737,762	89,656,737	89,656,737
Total United States.....	\$596,114,034	\$524,093,168	\$565,327,637	\$565,327,637
New York City.....	70,889,351	33,453,589	65,782,634	65,782,634
Outside New York City.....	525,224,683	490,639,579	499,545,003	499,545,003
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of May:				
Manufacturing number.....	245	186	168	168
Wholesale number.....	118	92	87	87
Retail number.....	575	463	499	499
Construction number.....	132	153	121	121
Commercial service number.....	94	91	80	80
Total number.....	1,164	985	955	955
Manufacturers' liabilities.....	\$28,450,000	\$17,142,000	\$14,093,000	\$14,093,000
Wholesale liabilities.....	5,713,000	4,090,000	2,864,000	2,864,000
Retail liabilities.....	13,242,000	10,772,000		

Leveling Off of Boom Reported by N. A. P. A. Labor's "Magna Charta" and Wage-Price Spiral

National Association of Purchasing Agents' latest survey confirms previous month's report of the national economy's reduced pace. Anxiety over the short-term business outlook is expressed by those replying.

The June Business Survey reports of Purchasing Executives, who comprise the National Association of Purchasing Agents Business Survey Committee, whose Acting Chairman is Marshall Pease, Assistant Manager of Purchases, the Detroit Edison Company, Michigan, confirm the reduced pace of the national economy indicated last month. Although the 21% reporting lower production in June is the same percentage as in May, there are 20% who say production is better, compared with 28% last month, and 59% report no change in this category, whereas 51% so reported a month ago. An improvement in new orders is shown by only 25%, compared with 33% in May, while 28% reported reduced orders in June, against 26% a month ago. No change in new orders received is listed by 47%, with 41% so reporting in May.

Commodity prices continue to ease, and inventories are being worked down gradually. Employment is down again due to layoffs and reduced working time. On production items, there is a shortening of ordering lead time, while MRO and capital goods show little change.

The answers to the June special question, on whether the current rising total of expenditures on industrial plant and equipment would continue, or level off, in the second half of 1956, were somewhat inconclusive. Most of those answering the question expressed some anxiety over the short-term business outlook, but expected improvement prior to and through the fourth quarter of the year. There were 46% who reported that their expenditures would continue, and 54% reported that they would level off.

Commodity Prices

A continuation of easing of prices is indicated in the June reports of Committee members, with only 33% listing higher prices, compared with 61% a month ago. In June, 10% show lower prices, where 5% so reported in May. There were 57% reporting prices the same, whereas 34% so reported last month. Adequate coverage of essential requirements, for the present business level, appears to be reducing the buying volume.

Inventories

The June reports of the Committee members reflect a further reduction in inventories, especially unworked stocks. As reported last month, the accumulation of goods against market uncertainties is diminishing. There were 31% with higher inventories in June; 50% said no change, and 19% reported less carry-over than in May.

Continuing last month's report of declines in the number of persons on pay rolls, 22% say they have fewer this month. The number reporting their rolls the same increased to 64% from May's 58%. Those indicating greater employment dropped to 14%, the smallest number since March of 1954. Most were optimistic, however, feeling that employment would pick up again later in the Summer, with brighter prospects for the third and fourth quarters.

Buying Policy

An increase from 22% in May, to 27% in June, of those buying in the 30-day range on production materials is noted this month. A corresponding drop from 39% to 32%, is reported in the 60-day range. Those indicating lead time of more than 60 days remained the same, while the hand-to-mouth buyers increased to 5%.

On MRO supplies, the majority

continue to buy in the 30- to 90-day range. The percentages reported are: Hand-to-mouth—16%, 30 days—39%, 60 days—26%, 90 days—19%, 120 days and over—1%.

Capital expenditure purchases, as expected, stay predominantly in the 120 days and over category, with 62% so reporting. The next largest grouping is in the 90-day range, with 17%. There are 12% reporting 60 days' lead time, with 2% reporting 30 days and 7% are on a hand-to-mouth basis.

Specific Commodity Changes

Price advances reported by Committee members this month can best be categorized as weak.

On the up side are: Aluminum, some steel items, phenol, alcohol, paper, meats, lumber, gasoline, and electrical equipment.

On the down side are: Brass, copper, copper scrap, steel scrap, mercury, ammonia, waste paper, rubber, vegetable oils, including linseed oil.

In short supply are: Aluminum, some copper products, nickel, steel (structural, alloy, plate, pipe, stainless, sheets and shapes), and monel.

Kidder, Peabody Group Offers Securities of Portland Cement Firm

Public offering of \$6,497,400 (Canadian) 5½% debentures due 1971, 232,050 shares of 5% convertible preferred stock, \$10 par value (Canadian), and 696,150 common shares of Lake Ontario Portland Cement Co., Ltd., is to be made today (June 28) by Kidder, Peabody & Co., and associates. The securities are priced, in terms of U. S. dollars, at \$687.95 and accrued interest per \$700 (Canadian) principal amount of debentures, \$10.18 per preferred share and \$1.02 per common share. Securities are being offered only in the ratio of \$700 principal amount of debentures, 25 convertible preferred shares and 75 common shares, and integral multiples thereof. A portion of the issues is being offered concurrently in Canada by a group of Canadian underwriters, including Nesbitt, Thomson & Co., Ltd.

The company has been organized to own and operate a Portland cement manufacturing plant and a commercial aggregate (crushed limestone) production plant, to be constructed on the north shore of Lake Ontario at Picton, Ont., and bulk storage and bagging facilities to be constructed at Toronto and Picton, Ont., and Rochester, N. Y. The cement plant will have a planned initial capacity of 1,650,000 (U. S.) barrels annually. Lands acquired or under option by the company near Picton contain substantial deposits of limestone and clay, the basic ingredients of cement.

The net proceeds to the company from the sale of these securities will be applied, after the repayment of outstanding interim notes totalling \$300,000, to the construction of the proposed plants and facilities and to initial working capital.

The company has obtained a commitment from a chartered bank in Canada to purchase \$7,000,000 of 4¼% first mortgage bonds due 1958-1967. After the issuance of these bonds and the public sale of the securities, the company will have outstanding \$7,000,000 of 4¼% first mortgage bonds, \$6,497,400 of 5½% 15-year debentures, 232,050 convertible preferred shares and 1,263,650 common shares.

Supporting the market determination of wages and refuting the superficial view that "labor is not a commodity," Guaranty Trust monthly bulletin upholds bargaining freedom of employee and employer. Claims steel strike offers little chance of lasting material gain since wages will be offset by higher prices.

The 650,000 United Steelworkers of America would risk a lot by striking, with little chance of lasting material gain for themselves, according to an article in the July issue of "The Guaranty Survey," published by Guaranty Trust Company of New York, which says that members of large union groups not only cannot win but might, in the event of strikes, lose a great deal.

The reasoning behind this, the "Survey" explains, is that labor as a whole will pay for any increases in wages through higher prices. The wage-price "spiral" will have been given one more twist, in a long series of futile attempts to show that "labor is not a commodity" and that wages can be exempted from the market processes that determine the distribution of income.

Average hourly earnings of factory workers have more than quadrupled since 1932, but the increase has been more than offset by the rise in prices of finished goods. The ratio of earnings to prices, which measures the real ability of the worker to buy the product, has risen 76% while productivity (average output per man-hour) has increased 77%, according to the "Survey."

The article warns that to abolish market determination of wages—that is, the commodity character of labor—it would be necessary to destroy private enterprise and resort to socialism, which would make the worker truly a chattel.

"The true Magna Charta of labor," the "Survey" points out, "lies in the very fact that labor is a 'commodity or article of commerce,' not a pawn in a totalitarian game."

The essential characteristics of a commodity or article of commerce are that it is in demand and in limited supply, giving it a value in the market place determined by the supply and demand, according to "Survey," which notes that human labor possesses these characteristics.

Describing the statement "labor is not a commodity" as being superficially strong in humanitarian appeal, the "Survey" acknowledges that "it sounds like a declaration of independence for labor, an assertion that the workingman is not a slave or chattel to be bought and sold in the market place."

But there is widespread confusion, the article points out, between the unrelated contentions that (1) working people are not slaves or chattels and (2) their labor is not a commodity or article

of commerce. The first is indisputably true in the United States, the second is unrealistic in any free-enterprise, profit-and-loss economy.

Accordingly, the individual worker is represented as the owner of a valuable commodity—his capacity to work—which other men are eager to buy and pay for. This commodity is inalienably his, and he is free to sell it in the most attractive market he can find. He is an independent proprietor, an entrepreneur. His opportunity for advancement is limited only by his ability, energy and diligence.

With respect to wages, the "Survey" says that "it is as pointless to criticize the employer for not paying more than he must as to blame the worker for refusing to work for less than he can get elsewhere. Each party obtains the best terms he can."

Helio Aircraft Corp. Now Operating in the Black — To Expand

Helio Aircraft Corp. which produces the Helio Courier and also does subcontract work in military and electronic components, reports that in the last 12 months, it has attained sales of close to \$1,000,000 and is now operating in the black.

The plant and all other corporate assets of Mid-States Manufacturing Corp., of Pittsburg, Kansas, the present contract manufacturer of the Helio Courier, is being acquired by Helio for an exchange of securities. Mid-States military sub-contract division last year earned approximately \$200,000 on its work other than production of the Helio Courier.

The Mid-States plant is presently capable of producing up to 300 Couriers a year which at present prices represents a retail volume of more than \$7,500,000 per year. It is understood that the fast-

growing electronic component manufacturing at Helios Norwood, Mass., base has in recent months passed the break-even level and is rapidly on the way to becoming a major supplier of aluminum components for the expanding electronics industry in the Northeast area.

Helio anticipates no diversion of any revenue for income tax payment for at least one year and possibly more, due to the fact that the very large past and current expenditures on research and development which may total approximately \$1,500,000 by the end of 1956 can be used to offset otherwise taxable income.

The Helio company's principal product, the Helio Courier, is an executive-utility aircraft with the extremely wide speed range of 30 mph. to over 160 mph. and operates easily from a 75 yard strip. The airplane establishes a new standard of safety as well as performance.

DIVIDEND NOTICES

FEDERAL

FEDERAL PAPER BOARD CO., Inc.

Dividend Notice

The Board of Directors of Federal Paper Board Company, Inc. has this day declared the following quarterly dividend:

45¢ per share on Common Stock.

The Common Stock dividend is payable July 15, 1956 to stockholders of record at the close of business July 2, 1956.

ROBERT A. WALLACE

Vice President and Secretary

June 20, 1956
Bogota, New Jersey

DIVIDEND NO. 67

Hudson Bay Mining and Smelting Co., Limited

A Dividend of one dollar and twenty five cents (\$1.25) (Canadian) per share has been declared on the Capital Stock of this Company, payable September 10, 1956, to shareholders of record at the close of business on August 10, 1956.

J. F. MCCARTHY, Treasurer.



OTIS ELEVATOR COMPANY

COMMON DIVIDEND No. 199

A quarterly dividend of \$.50 per share on the Common Stock has been declared, payable July 27, 1956, to stockholders of record at the close of business on July 6, 1956.

Checks will be mailed.

H. R. FARDWELL, Treasurer
New York, June 20, 1956.



The United Gas Improvement Company

DIVIDEND NOTICE

A quarterly dividend of 50¢ per share on the Common Stock, par value \$13.50 per share, has been declared payable September 23, 1956 to stockholders of record August 31, 1956.

A quarterly dividend of \$1.06¼ per share on the 4¼% Preferred Stock has been declared payable October 1, 1956 to stockholders of record August 31, 1956.

JOHNS HOPKINS, Treasurer
Philadelphia, June 26, 1956

DIVIDEND NOTICE



AIRCRAFT RADIO CORPORATION

Boonton
New Jersey

Dividend No. 94

On June 18, 1956, the Directors of Aircraft Radio Corporation declared a dividend of twenty cents (20¢) per share on the common stock of the company, payable August 15, 1956, to stockholders of record at the close of business August 1, 1956.

H. M. KINGSLAND, Secretary



At a meeting of the Board of Directors of The Gamewell Company held today, Monday, June 25, 1956, a dividend of 40 cents per share was declared payable on the Common Stock of the Company on July 16, 1956, to stockholders of record at the close of business on July 5, 1956.

E. W. SUNDBERG,
Treasurer



DIVIDEND NOTICE

The Board of Directors today declared the following dividend:

60 cents per share on the Common Stock, payable September 15, 1956 to stockholders of record at the close of business August 15, 1956.

The Goodyear Tire & Rubber Co.
By Arden E. Firestone,
Secretary

June 25, 1956

THE GREATEST NAME IN RUBBER

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Some real possible advantage as well as some grave shortcomings are seen as possible consequences of the proposal the Senate last week adopted which purports to put Federal budget and accounting on an accrual basis.

Without a single dissenting vote, the Senate approved this proposal, recommended by the second Hoover Commission and endorsed specifically by President Eisenhower.

What the bill is shooting at may be illustrated by an example, which in the technical difficulty of explaining the subject can be illustrated perhaps only by some over-simplification.

At the present time the Congress is making appropriations for various objects and many appropriations remain available until spent, sometimes lasting over several years. For instance, as Senator Harry F. Byrd (D., Va.) explained to the Senate, in six of the last nine fiscal years Congress has appropriated more funds than were spent.

Thus, he estimates, unspent appropriations at the beginning of fiscal 1957 will amount to about \$140.9 billion. The President estimated spending in that year at \$65.9 billion.

With this great over-hang of approved and unspent appropriations, the Congress in any one year can do little to control the actual amount spent, because the actual amount spent has only the most casual relationship to the amount appropriated. The President's budget likewise does not control spending, in view of this accumulation of unspent appropriated money. Specifically the budget is only an estimate, which officials readily agree is only an informed guess, as to how much will be spent.

The Example

The example would be the hypothetical case of Congress authorizing the construction of say, four super aircraft carriers to cost some \$350 million apiece.

As it now goes Congress will first pass an authorization bill and subsequently an appropriation bill for four aircraft carriers to cost an aggregate, of say, \$1.4 billion.

That money remains available to build four aircraft carriers until it is spent, even if it takes six years to build them all.

Hence Congress is now practically powerless to control the amount that will be spent in any one year on super aircraft carriers. If the work goes faster than anticipated, they might be built in four years and the annual expenditure would be \$350 million, instead of \$233 million per year, if it took six years.

While Congress might cancel the contract (even in a Navy Yard) the prime (if private) or subcontractors (if in a Navy Yard) have to be compensated for their losses.

The New System

Under the new system long-term spending projects for everything from super aircraft carriers to great power dams, etc., would be handled in a different manner.

Each agency would submit an estimate as approved by the Budget Bureau on how much it actually would spend in any one

year on its various legal projects. And the amount which would be appropriated would be no more than that amount. If the Navy said it could spend but \$300 million in say, fiscal 1957, on the construction of aircraft carriers, Congress would, appropriate \$300 million, and that is all that could be spent in that year building super aircraft carriers.

Its Virtue

The supposed advantage of this system is that if Congress were in a mood to balance the budget or just curtail spending a little, it could appropriate only \$200 million, and \$200 million is all that could be spent for this purpose.

As Senator Byrd said to the Senate on behalf of the bill:

"I am a patron of this bill because it is expressly a step in the direction of two objectives which I believe to be urgently needed in the Federal fiscal system:

"(1) Annual review of Congress of all major appropriations for expenditure in the coming fiscal year; and

"(2) Reduction in unexpended balances carried over from prior appropriations which now are available for years with ineffective legislative control over the annual rate of expenditure from them."

House Objections

This new scheme to relate annual appropriations to the exact amounts or less that would be spent in any specific fiscal year cannot become law, however, until the House passes this bill also.

At the moment the ranking Republican, Rep. John Taber of New York, and the Chairman of the Appropriations Committee of the House, Rep. Clarence Cannon of Missouri, are reported to be objecting to the bill. It is said, however, that their objections are more toward technicalities than the underlying principles, and that if the House does not pass the bill this year, it might have a good chance next year.

Is Limited

Even if both Houses made this proposition law, however, its influence toward economy could be negligible for several years.

In the first place, there is no apparent intention to apply the thing retroactively. If the Congress really got religion about economy, it could review all the past \$74.6 billion of unspent appropriations, even if that were an herculean task, and begin next year to provide current appropriations for current estimated rates of expenditure. The Senate debate disclosed no zeal for any such undertaking.

Second, the new budget and accounting scheme does not of itself jeopardize a single of the multitudinous Federal subsidies and spending schemes. As a matter of fact, it is one of the few major Hoover Commission recommendations which appears to have a chance to pass, and that is why it has a chance. It scarcely even indirectly threatens a single subsidy.

Finally, with the Senate passage of this bill there is no concurrent disposition in either the Senate or House to restrain the growth of new Federal

BUSINESS BUZZ



"Keep in good with your clients—a slight twist and it says 'Adlai'—another twist and it says 'Estes'—another one and you get 'Ike'!"

welfare and spending schemes. Actually, the current trend is to enlarge the scope of long-range Federal spending undertakings.

Better Than Before

Nevertheless, impartial observers think that the Kennedy-Payne bill, the new accrual accounting system, is better than the present system. It does leave the way open for a future Congress, should any ever become economy-minded, to exercise some fiscal control. With tens of billions of dollars of unspent and spendable appropriations constantly over-hanging the fiscal picture, even the feeblest disposition to economize can be frustrated.

Contingencies Escape

As seasoned fiscal observers see this scheme, however, its greatest weakness is its limited applicability only to appropriations. Completely escaping this control is the whole stable full of contingent and moral obligations which for future years there isn't a dime of over-hanging appropriations. And Senator Byrd believes their total rivals the admitted Federal debt. Some of these contingencies involve definite, legal liabilities for Congress to appropriate money for as long as 40 years hence, and in some cases, to eternity. Others involve clear moral obligations, even if they are not legally binding.

There are, for instance, the X-teen varieties of FHA mortgage insurance, so numerous

that any one FHA official seldom knows what they are without consulting a chart. Should the housing market ever become depressed, the government would be confronted with paying up to \$20 billion or so on insured loans. The alternative would be the wrecking of all institutional investors.

Then there is the lease-purchase act, under which a Federal building is acquired with 4% down and a promise by government to pay off in 24 additional annual instalments. This is no standing appropriation, but a contractual binding of future Congresses to appropriate money Congress was seeking to avoid appropriating at once in the first place.

Or there is public housing, in which the Federal Government by solemn contract pledges its "full faith and credit" to pay annually for 40 years to each local "public housing authority" a sum equivalent to the service of the authority's debt.

On the same day when the Senate passed this new plan for an accrual system of budget and accounting, the House passed the Administration's bill further glorifying Farmers Home Administration "insured" loans. Farmers Home entices private institutions to disburse money on government-guaranteed loans. At the time the money is disbursed, the government expressly contracts to take back this supposedly 40-year mortgage at any time after five years that the primary lender wants his unpaid balance back in cash. Again, no standing

funds are appropriated for use in making good this contingency.

Finally, there is Social Security. This is a law which vests payroll-tax paying beneficiaries with a specific entitlement to pensions. Yet the Trustees of the Old Age Insurance and Survivors Trust Fund just the other day indicated by implication that after five years the general taxpayer would have to begin to shell out to pay these pensions; the payroll tax would not be enough. This is no past over-hanging appropriation, but it is a legal, binding obligation of growing magnitude.

Is Merely Mechanism

Even if made law, this new accrual accounting system is of itself only a mechanism. With a Congress determined to maintain the government's solvency, it would be an almost indispensable and useful mechanism.

However, in its present status it is merely a reflex action of a Congress vaguely uneasy about what lies ahead in view of its own and all recent Administrations' fiscal irresponsibility. In this setting it is characteristic of this country to adopt mechanisms as escapes from facing reality.

So the accrual system of accounting, even if enacted, will in the present irresponsible fiscal climate, take its place alongside the late 16th amendment in guaranteeing the sobriety of the population, and alongside the United Nations in promoting perpetual world peace, serenity and international good will.

[This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.]

Colombia Extends Bond Exchange Offer

Holders of various issues of Colombian Mortgage Bank bonds are being notified that the exchange offer for Republic of Colombia 3% external sinking fund dollar bonds, due Oct. 1, 1970, is extended to July 1, 1957. The period of exchange of convertible certificates for bonds has been extended to Jan. 1, 1958.

Joins Clement Evans Co.

(Special to THE FINANCIAL CHRONICLE)
ORLANDO, Fla. — Howard Wheeler has become associate with Clement A. Evans & Company, Inc. of Atlanta. Mr. Wheeler was previously with Leed Wheeler & Alleman, Inc.

With Sutro Bros. & Co.

(Special to THE FINANCIAL CHRONICLE)
PALM BEACH, Fla. — Andre T. Balconis, Robert A. Dah John H. McGowan, Edward Miller and Elwood B. Van Voorhees, Jr. have become associate with Sutro Bros. & Co., 316 South County Road.

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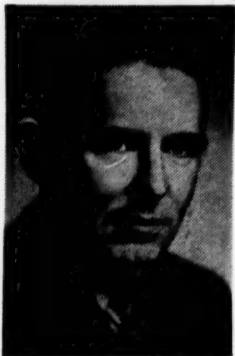
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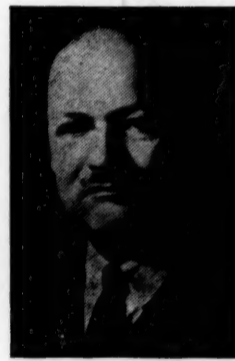
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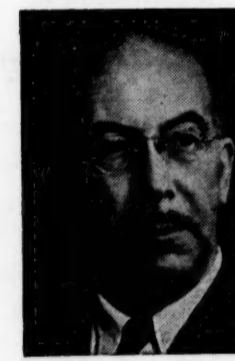
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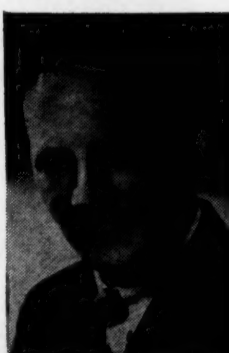
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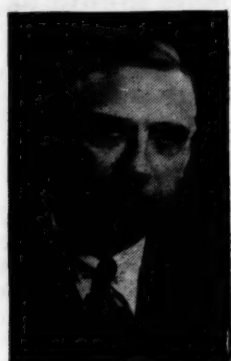
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Significant Canadian Economic Developments

In reporting on the developments over the past 12 months I shall confine my remarks to a brief summary of what I consider



John R. Hughes

to have been some of the more significant developments in our economy that have important implications for the future. We are all more or less inclined to consider ourselves amateur economists and I must confess that in preparing my remarks I found it somewhat difficult to restrain myself from elaborating at much greater length upon certain issues upon which I hold rather definite views. However, in deference to you and to our distinguished guest speakers, from whom I know you are most anxious to hear, I have placed a self-imposed 15 minute limit upon my remarks.

In the industry in which we are engaged, the level of general business activity is always a matter of the greatest importance. Few, if any, lines of industry are as sensitive as ours to the changes in the tempo of activity. Indicative of this, the securities markets have long been considered as barometers, providing those skilled in interpreting their movements with some insight into the nature of things to come.

At the time of our last annual meeting it was reasonably certain that, following a year and a half of moderate recession, the trend was again definitely upward. We met in an atmosphere of optimism, yet I venture to say there were few among us who really anticipated the full extent of the astonishingly rapid and strong recovery in Canadian business activity in the latter half of the

*An address by Mr. Hughes at the 40th Annual Convention of the Investment Dealers' Association of Canada, St. Andrews By-the-Sea, N. B., June 14, 1956.

By J. R. HUGHES*
Royal Securities Corporation Limited
President, Investment Dealers' Association of Canada

Looking forward to the future with confidence, Mr. Hughes predicts an extremely bright Canadian investment outlook, warns of possible temporary economic growth interruptions, and reports 1956-1957 estimates of very substantial near-term capital requirements which may not be entirely fulfilled because of some strains accompanying current almost fully employed economy. Believes: (1) predictions that the 20th Century would belong to Canada will be fulfilled if fully supported by Canadian willingness to investment and work; (2) it would be preferable to have some Canadian share ownership in foreign wholly-owned Canadian subsidiaries; (3) soundly administered monetary controls can help contain the business cycle; and (4) inflation stops the vitally important savings flow.

year. Briefly reviewing the developments, conditions began to improve only in April, yet by mid-year prosperity was again quite generally in evidence and by late November our monetary authorities had turned to a policy of considerable tightness from a policy of definite monetary ease, which had been encouraged in 1954 and the early months of 1955. I think that perhaps even the Minister of Finance, Mr. Harris, was surprised at the extent of the upswing in the last half of the year. I trust that the Minister will not feel that I am in any way attempting to question his ability in the realm of forecasting if I refer to the estimates of gross national product which he gave us at our last annual meeting. As I recall it, he suggested that our gross national product in 1955 might reach \$25½ billion and that by the end of the year it might be running at an annual rate of about \$26 billion. Many, at the time, considered he was extremely optimistic, but events proved his estimates were on the conservative side. Actually, the upsurge in the last half of the year carried our gross product to \$26.6 billion and by the end of the year it was running at an annual rate of \$27.4

billion, establishing a new record. With final product prices in 1955 relatively stable, the increase in gross national product reflected almost entirely an expansion in the volume of production.

Vigorous Recovery and Some Strains

Since the turn of the year the business scene in Canada has presented a picture of an almost fully employed economy making strenuous efforts to expand its output. Activity in the major industries of forestry and mining has been well ahead of that a year ago. The service trades have continued to grow and for the majority of manufacturing industries production and shipments for the first half of this year have been well ahead of 1955, with the notable exceptions of companies manufacturing automobiles and farm equipment.

The vigorous revival has quite naturally produced some signs of strain in our economy. The more notable examples of these are the marked increase in our imports and the increasing demand for credit. The upward movement of our wholesale price index over the past year, while of modest proportions, provides further evi-

dence that strains are beginning to appear. These visible signs of strain have been undoubtedly the principal factors that have brought about the shift in policy on the part of our monetary authorities from one of "easy money" to one of considerable "tightness."

The greater reliance now being placed upon monetary controls in the more important countries of the Western world, than was in

the case of the immediate post-war years, must be considered a further and important step towards re-establishing the economics of those countries on a free enterprise basis.

Operating in a free enterprise economy a central bank, may, and often does, influence the supply and price of credit. However, from the longer range point of view the cost of money is determined by the broader forces of supply and demand. The position and responsibilities of a central bank were set out in the preamble of the Bank of Canada Act of 1934:

"Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, generally to promote the economic and financial welfare of the Dominion."

Money Market Sensitivity

The greater dependence upon the interplay of economic forces suggests that we can expect our money markets in the future to

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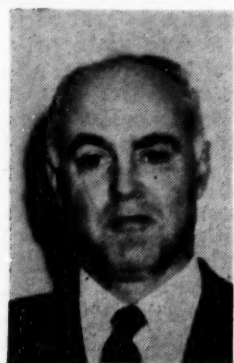


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The Atomic Energy Program in Canada

The subject of atomic energy can be approached in a number of ways. The approach selected depends on one's viewpoint. The



Wm. J. Bennett

The scientist will be intrigued with the many new possibilities which atomic energy presents for extending further the boundaries of knowledge. For example, the physicists are already speculating as to the possibility of a controlled thermo-nuclear reaction, and the chemist has found in radioisotopes a most useful tool for applied research in many fields. The engineer, whether he be engaged in design or fabrication, will be concerned with the problems which must be solved if atomic energy is to become an economic source of electric energy. The economist will calculate the contribution which this new energy source will make to rising energy demands in particular countries and in the world at large. The statesman will be conscious at all times that atomic energy is both an instrument of war and a guarantee of peace and, as such, has become a dominant factor in international relations.

I assume that this audience, while sharing in some degree all of these viewpoints, has a special interest in the opportunities for investment which atomic energy may provide. While I shall have that interest very much in mind in my description of the Canadian program in atomic energy, I should make it clear at the outset of my remarks that it is quite impossible to provide the kind of information which an investment house normally requires for a prospectus, simply because the

*An address by Mr. Bennett before the 40th Annual Convention of the Investment Dealers' Association of Canada, St. Andrews By-the-Sea, N. B., June 15, 1956.

By W. J. BENNETT*
President, Atomic Energy of Canada, Ltd.

Canadian atomic head reports "we are now able to predict that nuclear power can and will be used" and, though the program is at too early a development stage to supply the data required in a prospectus, forecasts based upon the relationship of future power requirements, costs of conventional power sources, costs of generating nuclear power, and other assumptions, indicate nuclear energy: (1) will be in modest supply until 1970 when it should become increasingly important; (2) offers interesting possibilities for space heating and for production of process heat; (3) requires continuing the uranium industry as a going concern after the 1962 government contract termination date; and (4) will permit uranium production to attain the highest dollar value of metals produced in Canada.

program is at too early a stage in its development. What I shall try to do is give you the kind of background information which will help you to evaluate the numerous and sometimes conflicting predictions which are being made about nuclear power and its implications for our economy.

Fuel and Capital Costs Compared

Let us start with one or two basic facts about nuclear energy. When nuclear fission takes place in a reactor, large amounts of energy in the form of heat are produced. A ton of natural uranium has a heat potential of 20 billion kilowatt hours — which is roughly equivalent to the heat potential of 2,600,000 tons of coal. The present known reserves of economically recoverable uranium have an energy content many times that of the known reserves of oil, gas and coal. While, as I shall point out later, we cannot hope to utilize all of this energy content, we are confident that we can achieve a degree of utilization which will make atomic energy a very large source of heat. We are likewise confident that this heat can be used to produce steam to drive a turbine in a power plant. It can also be used for space heating or for producing process heat.

My remarks today will be concerned mainly with the first use. The production of economic power from a nuclear station depends on the solution of a wide range of technical problems. These problems may be grouped under the general heading of capital costs. The great advantage of nuclear power as compared with conventional thermal power is the low fuel cost. Fuel costs in 100-megawatt conventional thermal stations on this continent now average from 3 to 4 mills per kilowatt hour. Using present technology, it should be possible to achieve a fuel cost of not more than 2.5 mills per kilowatt hour in a 100-megawatt nuclear station operating at a load factor of 70%. With improvements in technology — and it is reasonable to expect such improvements — this cost might be reduced to as low as one mill per kilowatt hour. On the other hand, the capital cost of nuclear stations will be higher than the capital cost of conventional thermal stations. The capital cost of conventional thermal stations of 100 megawatt capacity ranges from \$120 to \$160 per kilowatt. The capital cost of the first generation of nuclear power stations — that is, the stations which will come into operation over the next two or three years — will

range from \$500 to \$600 per kilowatt. This cost must be reduced to something like \$250 per kilowatt, if the advantage of lower fuel costs in a nuclear station is not to be lost by reason of higher capital charges.

Before I tell you what we are doing to achieve this goal, let us ask ourselves whether the effort (and it is an expensive one) is worthwhile. Or, to put it another way, is there a need for nuclear power in Canada?

Does Canada Need Nuclear Power?

The role of the forecaster is always a hazardous one, and this is especially so when he speaks to an audience which can claim special competence in the business of forecasting. A forecast as to the future role of nuclear power must be predicated, first, on an acceptable estimate of the future power growth rate in Canada; second, on the conventional power resources, either hydro or fossil fuels, which will be available to meet the new demand; and, third, on the minimum cost at which it will be possible to generate nuclear power. There are several methods of

forecasting power growth rates. One method is to project the future growth rate on the basis of past experience. For example, we know that the power growth has been at the rate of about 5½% per annum over the past 25 years. It is also possible to establish in that period a relationship between the rate of power demand and such basic factors in the economy as the rate of increase in population and the rate of increase in the value of the Gross National Product. If it is assumed that the rate of increase in the population and the rate of increase in the value of the Gross National Product will continue at the present rates of 2% and 4½% respectively, and if it is also assumed that the past relationship between these factors and power demand will likewise continue, it is possible to estimate a future rate of power growth as high as 7%.

A second method is to forecast future power requirements by analyzing the requirements of particular industries, since we know that two or three industries now account for over half of the total consumption of electric energy in this country. In using this method, account must be taken of the future requirements of these particular industries, and some allowance must be made for the possibility that the pattern of industrial development may change. Such an analysis may indicate that the immediate rate of growth will be as high as 7% per annum but that the growth rate may level off at somewhere around 6% per annum. I have selected a growth rate of 6% for the period of the next 25 years because I believe this is a conservative estimate. On this basis, we will have a total installed capacity in 1965 of 28 million kilowatts and a total installed capacity in 1980 of 67 million kilowatts, as compared to the

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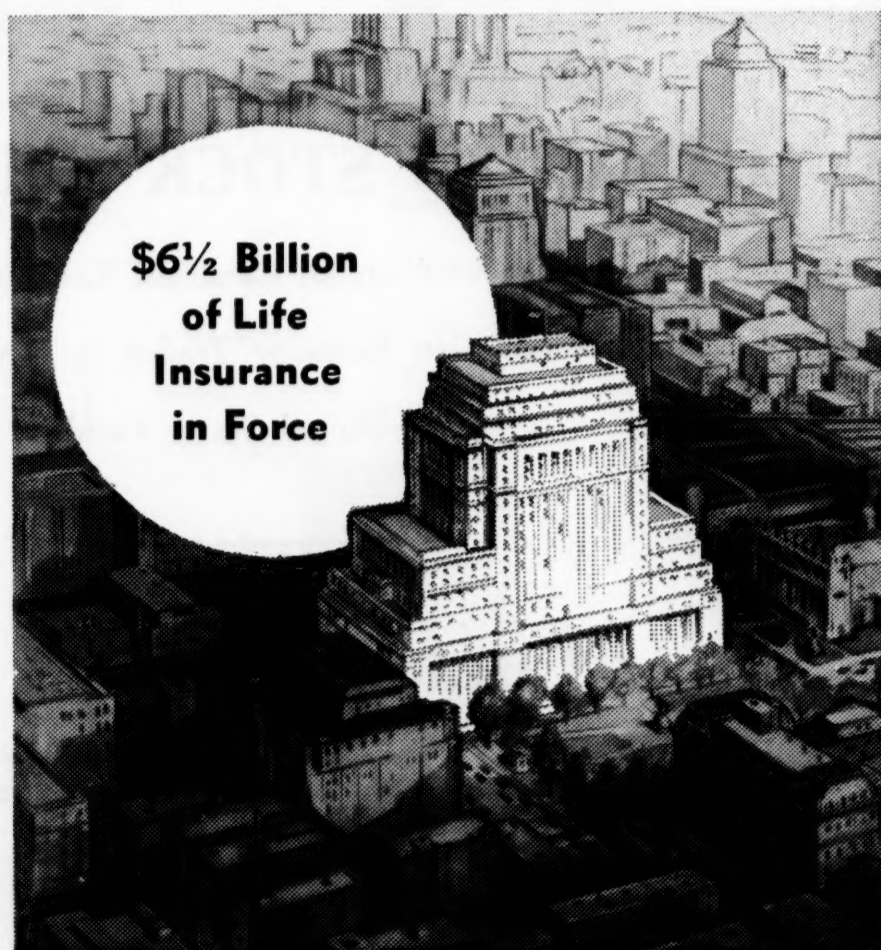
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Central and Investment Banking in Canada

During the past two years there have been developments of considerable interest in the fields of both central banking and investment banking, and in the relationship between the two. These developments have continued a process which began 21 years ago with the establishment of a central bank in Canada, and which has been going forward ever



J. E. Coyne

since, both in peace and in war. Certainly the investment banking business has acquired increased importance in Canada over this period, has come to fulfill an increasingly important function in the financial structure of our economy. That structure as a whole is in consequence stronger, better integrated, more flexible and of more value to the nation through the assistance it provides to economic growth and development, to the increasing maturity and diversity of our economic life.

By way of background to some further comments on investment banking in Canada today, I should like to refer to changes in the monetary situation over the past year, and to the way in which the monetary operations of the central bank and the credit-granting operations of the chartered banks interact with the operations of investment dealers in the distribution of re-distribution of securities and other investments.

It is sometime said, inaccurately and with misplaced dramatic emphasis, that monetary policy is now restrictive, where a year or more ago it was expansive, and that credit has been or is being restricted. These phrases imply that there is less money available, less credit available, today than at some time in the recent past. This idea is sometimes coupled

*An address by Mr. Coyne at the 40th Annual Convention of the Investment Dealers' Association of Canada, St. Andrews By-the-Sea, N. B., June 14, 1956.

By J. E. COYNE*
Governor of the Bank of Canada, Ottawa

In explaining the extent to which the opposite to monetary restrictionism is the case, Governor Coyne states "economic growth this year will be the biggest in our history," that financial expansion has been held to what is possible in the physical sense, and that central bank action did not cause interest rate rise. Points out that the \$950 million difference between deposits and loans and investments was met principally by banks reducing government securities by \$925 million; praises investment dealers for their help in accommodating the huge distribution adjustment, and for encouraging, mobilizing and directing savings flow, and suggests challenge of improved short-term money market and residential secondary mortgage market be met.

with the statement, also inaccurate, that the raising of the bank rate by the central bank was intended to bring about monetary restriction and did so.

No Monetary Restriction

The facts are that the total money supply (currency and bank deposits) has not been reduced, but has continued to grow, and that credit has not been restricted but has continued to expand. Savings are continuing to rise, both in bank deposits and in other forms, long-term investors have more money available for new investment this year than ever before; economic growth this year will be the biggest in our history. Bank loans have increased every month so far during the period of so-called restriction, although it seems probable that the rise in total bank loans will slow down before very long; some categories of loans may decline while others go on increasing.

It is always possible, indeed it is normal, for bankers and investors to take different views from time to time of various kinds of loans and investments. In particular, at a time when the demand for money, the desire to borrow money, exceeds the supply that may prudently be made available, it is inevitable that some potential borrowers will be disappointed, some financing will have to be postponed, some loans will fail to meet the higher standards of credit-worthiness adopted by lenders in such circumstances.

This is what has been happening in the credit field, both long term and short term, in recent months. On the supply side there has been no overall reduction but rather continued growth. But demand has grown even more, and the projects for which funds are required have given every indication of being more, in total, than the physical potential of the economy. This has been true both of Canada itself, and of North America as a whole, and indeed of the greater part of the world. To permit the supply of money to become excessive, to expand to the full extent of the demand at the pre-existing level of interest rates, would in such circumstances be clearly inflationary, it is the duty of central banks not

to give way to the demand for such an excessive financial expansion. I am speaking of overall totals, monetary policy as such does not deal with the allocation of financial resources to particular persons or enterprises or regions.

Limiting the rate of financial expansion under such circumstances does not limit or attempt to limit the total amount of physical expansion, whatever amount may be physically possible, but simply seeks to ensure that financial expansion does not exceed or encourage futile efforts to exceed what is possible in the physical sense. Too much money chasing the available production of goods and services will not help to achieve the maximum sustain-

able rate of physical growth of the economy, but may hamper such growth, in addition to bringing all the other evils of inflation in its train.

Interest Rate Rise

Except at a time of marked underemployment of the economy as a whole, any strong demand for money, any rapid increase in the total demand, will cause a rise in interest rates. This rise is caused by the interaction of supply and demand, not by the action of the central bank, except in the sense that the central bank could prevent the rise in interest rates by providing an unlimited increase in the money supply. Normally the rising demand makes itself known through a rise in bank loans and bank deposits, and a fall in the prices of securities as sellers seeking to raise cash exceed those wishing to buy securities at existing levels. Banks too will have to sell securities to accommodate the increase in loans, unless the central bank increases their cash reserves, which would be a consequence of the purchase of securities in the market by the central bank. In fact, at a time of rising demand for money, a central bank will usually buy some securities and so add somewhat to the money supply, but not at a fixed level of interest rates or of security prices.

One effect of the normal reaction of a central bank to an increase in the demand for money

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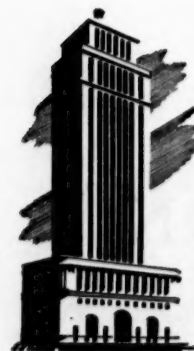
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W. M. V. Ash

more important operations in the mining-engineering field. Then it must be transported by pipeline, barge or ship, and remember that in terms of ships alone 30% of the world's shipping industry is represented by tankers. Next is the refining process—a chemical operation bigger in itself than what you usually think of as the chemical industry. Then transportation comes in again by ship, pipeline, rail car or truck — and figure for yourself how many of the trucks you see on our highways are oil transports. Finally, our gallon reaches you through this service station—the greatest single retail merchandising system in North America. The oil industry in fact is several — at least four—major industries rolled into one.

I mention all this not to boast of the size of our industry, but to lay a background of bigness in terms of long range planning. The need for bigness in Canadian planning will be my major theme.

*An address by Mr. Ash before the 85th Annual General Meeting of the Canadian Manufacturers Association, Toronto, Ont., June 7, 1956.

By W. M. V. ASH*
President, Shell Oil Company of Canada, Ltd.

Shell Oil President believes oil industry has passed the stage where it thinks of profits first and planning afterwards, and analyzes the following principal factors governing and requiring long range planning in economically and strategically important oil: (1) world energy requirements are such that 700 million ton oil production of 1955 will have to more than double to 1,600 tons in 1975, and will, at this rate, increase four-fold at the end of the century; (2) bigness in oil is inevitable; (3) Canadian reliance upon oil and natural gas production rose from 23% in 1946 to 42% in 1954, of total Canadian energy, and increasing reliance on petroleum is certain in spite of known future atomic developments; and (4) effect of monetary depreciation upon oil industry's heavy capital requirements, which in the next decade is expected to add \$8 billion to new investment in today's dollars. Deplores efforts to prevent foreign investments, free trade, and liberalized tax legislation.

In an industry made up of several major industries long range planning is essential if only to co-ordinate its many components. More than that—the oil industry is an essential factor in the nation's long range energy picture, actually the predominant factor.

I saw a provocative article recently in which the author suggested the first job of any company was to make profits and that only thereafter could it indulge in long range planning. Leading from strength as it were. This is a plausible view but I think it is a small one. It is the first point in this talk at which I would like to stress bigness in planning. I believe the oil industry today has

passed the stage where it thinks of profits first and planning afterwards. Of necessity it must lay its plans as a member of the national energy team, indeed a member of the world energy team.

Energy Consumption Pace

Reflecting world-wide economic advance, the free world's effective consumption of energy has increased by 135% since 1920, and since 1938 alone it has increased by 80%. But the consumption of petroleum and natural gas has increased faster still, raising their joint contribution to the total effective consumption of all forms of energy from about one-seventh in 1920 to more than half last year. Meanwhile the contribution of coal has fallen from about five-sixths in 1920 to less than half today. Over the same period hydro-electricity has raised its share from 3% to 7%. The big growth of energy requirements expected over the next 20 years or so will have to be met primarily by petroleum. Coal is losing ground and although nuclear power is undoubtedly the world's main future source of energy, its contribution over the next two decades is likely to be only small in relation to that of the present established sources.

Assuming as a minimum that the free world's production of all

commercial forms of energy together increases during the next 20 years at an average rate of 3% (compound) a year, it will be necessary to considerably more than double oil production from last year's level of some 700 million tons to reach 1,600 million tons in 1975. In the last quarter of this century, if the world's production of energy continues to grow at a rate of 3% a year after 1975, total energy output by 2000 would be almost four times the present level. Even a very rapid increase in the production of nuclear power from 1975 onwards such as would raise its contribution to total energy supplies to one-third by 2000, would still imply the necessity under these assumptions for a fourfold increase in oil production over today's level by the end of the century.

Inevitable Bigness Growth

It is a feature of the oil industry that while there are numerous small and medium-sized concerns, the forces which really count in terms of world oil supplies are a relatively small group of large international companies, each of which has its own integrated operations in every main phase of the oil business. Many factors relating specifically to oil have made this development inevitable; but bigness is a feature also of

companies in many other industries. It is indeed a notable achievement of our age. We are in the midst of the greatest and most sustained expansion in human activities ever recorded, and the units which handle the work must themselves grow in proportion, some inevitably growing faster than others. Both the needs of rising populations, and the demands for higher living standards have to be met. In meeting them the technique of mass production and mass distribution have provided the most effective means. For certain industries bigness is inevitable. The oil industry is one.

A characteristic feature of the oil industry from the consumer's point of view is its smooth and even pace. There are no violent price fluctuations, and petroleum products are always available when and where required. The flow of crude oil production, refining capacity, tanker tonnage, pipeline building and distribution facilities all keep closely in step. Yet no great system of coordination exists. This smooth functioning and balance is possible because each major company, mindful of its own operations, works out very carefully what is required to maintain each phase of its business. While most of these companies feel the urge to improve their position, they realize that they must plan with deliberation and prodence.

Turning to Canada our economic progress is the growth in the real wealth per capita. Canadian experience in common with general experience shows that a higher standard of living involves a greater per capita consumption of energy.

Canada Needs More Energy

The fulfillment of Canada's great economic potential depends on a flourishing energy industry. The demand for energy in Canada has increased by 32% between 1946 and 1954. Future economic progress will require growing energy supplies. Petroleum is easily the most important form of Canadian energy supply. Oil and natural gas in 1954 counted for 42% of total Canadian energy as compared with 23% in 1946 allowing

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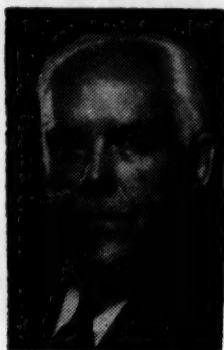
Canadian Telecommunications Today, Tomorrow

I am keenly aware of the honor you have paid me in asking me to address you. And I would be grateful if you would visualize me — while making this statement of thanks — as a man wearing several hats. First, I am speaking personally — on my own behalf. Secondly, for The Bell Telephone Company of Canada. And, thirdly, as a spokesman, a trifle self-appointed I must admit, for the Canadian telephone industry.

I would assume it is this third character you chiefly wish to hear from. My reminiscences—entitled perhaps Telephone Customers I Have Known or Thirty Years in Darkest Telephonia—do not seem wholly appropriate. And I am continually made aware that my own company is just a segment of a vast enterprise, national — even continental — in its implications. Also, the fact that you have yourselves assembled here from all over Canada makes the more desirable a national presentation.

Let me then begin by sketching—in broad outlines—the scope and organization of the telephone industry in Canada, which is, I might add, the most telephone-minded country in the world. We Canadians make considerably more telephone calls per person than any other people. Is the climate responsible for this? Or are we unusually sociable? Or do we have a very high national percentage of teenagers? Or are we just plain talkative folk? I must confess that I don't know the exact reason. I can only present the facts to you and leave you to draw your own conclusions.

*An address by Mr. Eadie at the 40th Annual Convention of the Investment Dealers' Association of Canada, St. Andrews By-the-Sea, N.B., June 15, 1956.



Thomas W. Eadie

By T. W. EADIE*
President, The Bell Telephone Company of Canada

Canadian telephone industry spokesman projects an estimated \$3 billion plant and equipment investment need in the next 25 years and sees no reason why the major part should not be obtainable from Canadian sources. Mr. Eadie reviews the scope and growth of "the most telephone-minded country in the world," and, in illustrating the high-gear development, cites such major projects as: (1) coast-to-coast microwave traffic relay system, scheduled for operation by the end of 1958; (2) continent-wide automatic switching of long distance traffic, making Canada and the United States one vast telephone exchange; (3) Mid-Canada early warning line; and (4) pure research and practical technology efforts which include the transistor and the Bell solar battery.

There are over 4,000,000 telephones in Canada and they are operated by some 2,800 separate systems. Hundreds of these are small cooperatives, owned by farmers or municipalities. Among the larger organizations are both shareholder-owned companies, like my own, and systems controlled by provincial governments as in the case of the three Prairie provinces. Yet we form a closely integrated network, and we work in mutual assistance towards a common goal of good, nationwide telecommunications service.

Barometer of Development

The telephone industry is one of the best barometers of development—whether national or local. The prosperity of a city, the growth of its industry and settlement are reflected, usually magnified, in the demand for telephone service. The extension of service into remote areas — nowadays often by radio—is an indication of successful pioneering. Through the increase in long distance calling you can measure the expansion of trade. In the ten years since the end of the Second World War the national total of telephones and the daily average of calls, both local and long distance, have all more than doubled. As a measure of the special intensity

of telephone growth, I would relate those increases of more than 100% to the 29% rise in population and the 38% rise in the volume of gross national product during the same period.

We are therefore in a period of high-gear development, which presents the industry with many challenges to its ingenuity and energy. The quantities of equipment needed to handle the vast telephone traffic have had to be bought at high cost-levels, and they must be maintained in a state of very vigorous productivity if our plant investment is to justify itself economically.

So far as local service is concerned, expansion has not involved any great novelty of either method or machinery. We have added many million dollars' worth of dial switching equipment, we have built hundreds of new exchanges, and put into operation a tremendous mileage of wire and cable. Extended Area Service has been developed to provide the most suitable pattern of service for neighboring communities and for metropolitan areas. All this has been—it is—a very large undertaking, but not an especially spectacular one.

For our equivalent to the 3-D technicolor jobs I would refer you rather to the expansion of

long distance service. Canadians are presently making nearly ½ million long distance calls every day, more than twice as many as ten years ago. There may be little slackening in this rate of growth in the decade immediately ahead. Good and rapid long distance communications are essential to the national development, and they have been a priority charge for the telephone industry.

Microwave Transmission and Continent-Wide Switching

There are two aspects to all telephone development — transmission and switching. That is, carrying your call with clarity, and delivering it to the correct distant telephone. Progress in each direction must be carefully related. Masterly automatic switching is of little value if the long distance lines are always busy or the conversations over them are incoherent. Radio channels capable of simultaneously carrying hundreds of conversations will do little good unless

the calls they carry are switched rapidly and efficiently. So we are now engaged on two major projects — the construction of a coast-to-coast microwave radio relay system and the organization of automatic switching of long distance traffic on a continent-wide scale.

First, here is the microwave radio relay picture. The members of the Trans Canada Telephone System are building a microwave radio relay network from Sydney to Vancouver. Part of it is operating now, and it will be completed by stages. The entire network is scheduled to be in operation by the end of 1958. The Trans Canada Telephone System, as you are probably aware, is an association of the seven major Canadian telephone organizations formed to develop long distance service on a national basis. Each member is responsible for the construction and maintenance of installations in its own territory. At present a microwave system operates in our Bell of Canada territory between Toronto, Ottawa, Montreal and Quebec City and in but a few months to Winnipeg. It will form an integral part of the national network. And this network will also carry television programs across Canada, serving in all some 28 Canadian cities.

Those are the transmission facilities we are developing for long-haul telephone traffic. What are our plans for switching? The ultimate aim might be described as the transformation of the whole of Canada and the United States into one vast telephone exchange. There are, I might mention, about 60 million telephones now in service in the two countries, and in recent years they have been in-

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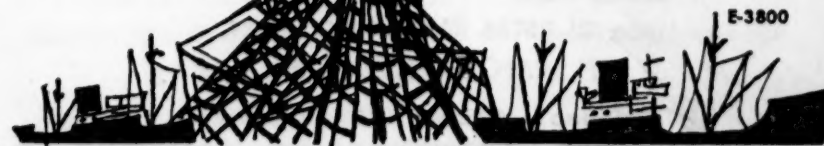


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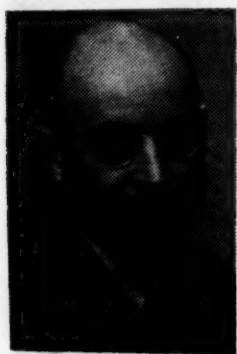
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Keeping Canada's Air Transport in Forefront

From the beginning, aviation and Canadians have seemed meant for each other. Canada's vast distances demand the kind of transport that aviation supplies.



J. E. Nickson

I believe that air transport is indispensable to this country. The first and salient and overwhelming fact about the scheduled air transport system today is that it is indispensable to the public. It does not exist for itself. It exists because people need it. As useful as air transport is today, we are only on the first page of the book of tomorrow's endless possibilities.

In looking into the future and attempting to prognosticate what might develop, I think we have to take a quick backward glance at what has happened.

In 1945, according to Canadian aviation statistics, domestic and international operations by Canadian and foreign carriers involved the flying of 153 million passenger miles. At the same time, according to Canadian railway statistics, the railways provided 6 billion 350 million passenger miles.

*An address by Mr. Nickson before the 85th Annual General Meeting of Canadian Manufacturers' Association, Toronto, June 8, 1956.

Commercial impact, economic growth results, and coming developments in Canadian aviation are depicted by Trans-Canada Sales Manager. Finds the future exceedingly bright in Northern, Mainline and International types of operation. Mr. Nickson observes: (1) it will be a problem to put commercial-paying aircraft through sound barrier speeds; (2) little prospect for atomic civil aircraft in next 15 years; (3) rapidly rising investment in planes of advanced technological and design progress constitutes a financing problem; (4) consumer air rates to decline in next 10 years, providing decreasing cost per seat or ton mile is not offset by expected rising labor costs; and (5) many improvements will have to be made to accommodate tomorrow's endless air possibilities.

Air Versus Rail Mileage

In 1955, based on actual and estimated figures for the first seven months of that year, the various air carriers flew 1,500,000,000 miles—an increase from 1945 of 880%. The railways provided 2,808,000,000 passenger miles—a decrease of 55%.

These figures give you some idea of the growth, since the end of the war, of civil aviation in Canada.

Now—looking to the future, what do we see? It seems to me that just about our starting point is to refer to the Gordon Commission briefs concerning the growth of this country. You will recollect that prognostications have been made that the population

will increase by 22% to over 19,000,000 in the next 10 years, and then continue to climb to 28,000,000 by 1980.

Further, it is the prediction that the Gross National Product will increase by 38% to \$36 billion in the next 10 years and continue upward to reach \$70 billion in 1980.

I have been asked to speak on the subject "Keeping Canada's Air Transport in the Forefront." I presume this means forecasting future developments for civil air transportation in Canada. In making forecasts, I find it at this time extremely difficult to look beyond 10 years ahead, that is, up to 1965. In our company we are actually planning operations, or I

should say, have planned operations through that year.

We are trying to work on a 10-year basis, as a minimum. One of the reasons why it is so difficult to talk beyond a period of 10 years must be perfectly obvious to any who wish to consider this question.

Basically, the problem is "What is the outlook beyond 10 years for aircraft development," that is, the means by which people and goods are actually moved.

Jet Aircraft Age

You have no doubt heard or read about the recent purchases by many of the major airlines of the world of jet aircraft. This is a most significant development.

It anticipates the elimination—gradually, I will admit—of the standard piston-engine aircraft on firstly, the long-haul or international routes, and subsequently the shorter-haul routes.

With respect to the shorter-haul routes, we are today operating turbine powered aircraft with geared propellers, and it is possible to foresee within the next 10 years the replacement of this type of aircraft, by some of the carriers with small jets.

The jet age is a new development in history of civil aviation. I don't know if many of you are aware of the fact the aircraft which have been ordered, will cruise in the neighborhood of MACH 8-5. In other words, their maximum cruising speed will be nearing the speed of sound, MACH 1, and in actual miles per hour should be around 550.

At the present time, the major carriers of the world using multi-engined aircraft, have these aircraft cruising in the neighborhood of 300 to 330 miles an hour.

Entirely apart from the particular airline problems of introducing a completely new aircraft with a new power system, the impact, commercially, on the nation and on other nations of moving the cruising speeds from, say, 300 to 550 miles an hour, is very extensive.

Therefore, we feel we can look

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The Atomic Energy Program In Canada

present installed capacity of 16 million kilowatts.

Where is this power to come from?

Future Nuclear Power Forecasts

A substantial part of it will come from hydro sources which are so located that they can deliver power to existing systems at costs less than the cost of producing thermal power. However, all of our hydro resources are not in this category. In some cases transmission costs will impose a prohibitive penalty. A conservative estimate shows that of the total installed capacity of 28 million kilowatts in 1965, 24½ million kilowatts will be supplied from hydro stations and the balance, or 3½ million kilowatts, will be supplied by thermal stations. Of

the total installed capacity of 67 million kilowatts in 1980, 46 million kilowatts will be supplied from hydro stations and the balance, or 21 million kilowatts, will be supplied by thermal stations. The substantial increase in 1980 in the percentage of thermal power as related to the total installed capacity reflects the exhaustion of economic hydro sources. In those regions where cheap fossil fuels are available, thermal stations will be of the conventional type—that is, they will burn coal, oil or natural gas. In those regions which do not have indigenous supplies of fossil fuels, transportation costs at some point may impose a heavy penalty, since fuel costs are the major factor in the total costs of power generated in thermal stations. Such regions

—and Southern Ontario is one of them—will face an inevitable increase in power costs, whether the choice lies between high-cost thermal power due to transportation expense or high-cost hydro power due to transmission expense, unless some alternative source of cheap energy can be found. Nuclear power is such a source.

On the basis of present information about power reactor technology, it is a reasonable expectation that nuclear power can be generated by 1965 at a cost of not more than 6 mills. This 6-mill cost is roughly equivalent to the cost of producing power in a conventional thermal station using coal at \$8 per ton. If we accept this cost target, the following estimate can be made as to the respective roles of conventional thermal stations and nuclear stations in meeting the requirements for thermal power in 1965: of the total installed thermal capacity of 3½ million kilowatts, somewhere between 200,000 kilowatts and 400,000 kilowatts will be nuclear. Beyond 1965 we would expect

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some reduction in nuclear power costs as the result of improvements in technology.

However, for the purpose of this forecast I have assumed a cost of 6 mills, although I think this is a conservative estimate. On this basis, of the 21 million kilowatts of thermal capacity in 1980, something like 7 million kilowatts will be nuclear. To the extent that nuclear power costs can be reduced below 6 mills, the contribution of nuclear power to the total installed capacity in 1980 will be greater. It may be of interest to point out that in its submission to the Gordon Commission, Ontario Hydro has forecast a nuclear installation of 400,000 kilowatts in 1965 and between 6 million and 7½ million kilowatts in 1980.

My forecast indicates that the part played by nuclear energy in supplying Canada's power requirements will be a modest one up until 1970. After that period we would expect that the role of nuclear power would become increasingly important and that by 1980 nuclear power plants would account for over 10% of the country's total generating capacity. Beyond that period the percentage will increase sharply.

I think it will be evident that the accuracy of the forecast depends on our success in developing economic power reactors.

What are we doing about this?

Fundamental Research

We are doing three things. First, we are carrying on fundamental research in physics, chemistry, biology, physical metallurgy, and associated sciences. Second, we are testing fuel systems, materials and components in the NRX reactor. Third, we are undertaking design and feasibility studies with supporting engineering development for power reactors. I should point out at once that, while I have described these three activities separately, they are in fact very closely related. Although sufficient scientific data are now available to permit a beginning in the applied field, the boundaries of scientific knowledge have by no means been pushed to their limit. If Canada is regarded today as one of the leading countries in this new science, it is simply because of the emphasis we have

placed on fundamental research. This emphasis must continue if we are to maintain our position.

The research scientist has a dual role. He must provide the data for the design of the future and possibly the ideal power reactor, and he must also provide expert advice in connection with current reactor projects. The testing of materials and components is an essential part of power reactor development. This can only be done in reactors like the NRX reactor at Chalk River where it is possible to stimulate the conditions, such as irradiation and temperature, which will prevail in a power reactor. I should remind you that the NRX reactor at Chalk River provides facilities for this type of work which are not found elsewhere in the free world, and this will explain why it has been used so extensively in the United States and United Kingdom atomic energy programs, as well as in our own program.

I might mention a project of current interest. The selection of specific fuels for the large demonstration power reactor known as the PWR which is now being built

in the United States was made as the result of experimental work carried out in the NRX reactor. Our new reactor, the NRU, which will come into operation late this year, will have even better facilities for experiment and testing. The General Electric Corporation, which is heavily involved in the United States power reactor development program, is now dis-

cussing with us the use of the NRU reactor for loop experiments.

Design and Feasibility Studies

Design and feasibility studies, with engineering development, are necessary if the results of research and experiment are to be given a useful application. Or, to put it another way, at some stage in

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The Atomic Energy Program In Canada

every research and development and operating a power reactor. program it becomes necessary to Our first design and feasibility demonstrate feasibility. In the re- study began early in 1954. From search and development program it came the outline specification for power reactors, this can only for the demonstration power re- be done by designing, building actor known as the NPD (Nuclear

Power Demonstration) which we are now building in association with Ontario Hydro. The design of this reactor, which is expected to come into operation in 1958, is based on the technology which we have pioneered at Chalk River. It will have an electric output of 20,000 kilowatts. Its primary purpose will be to demonstrate that a nuclear station can be operated as a reliable source of power.

The NPD will not produce power at competitive costs nor will it produce all the information which is required for the design of a large central power station. Consequently, we also have under way a preliminary design study with supporting development programs for a large power reactor—in the range of 100-200 megawatts. In addition, we are considering design studies for other types of reactors which we believe may have a useful place in the Canadian economy—for example, a dual-purpose reactor which will provide power and process heat for the pulp and paper industry, and a small reactor which will supply power and space heating

in remote areas of Northern Canada where the cost of conventional thermal fuels is excessive.

At the present time the annual cost of energy for all purposes in this country, before distribution cost, is something like a billion and one-half dollars. Hydro energy accounts for about 10% of this cost; fossil fuels account for the balance. A substantial part of the fossil fuel requirements is now imported at an approximate annual cost of half a billion dollars. The annual growth rate of energy requirements for all purposes is approximately 4% per annum. I offer these statistics in support of my opinion that the use of nuclear energy for space heating and for the production of process heat has very interesting possibilities.

Partnership With Utilities and Manufacturers

From the inception of the power development program we have recognized two basic principles—first, that nuclear power plants will be operated by those who are now in the business of producing

power—the utilities—and, second, that these plants and their components will be designed and built by manufacturers. These principles have determined the manner in which we are carrying out the program.

The participation of the utilities takes two forms. First, we have an Advisory Committee on Atomic Power on which the utilities are represented, and, second, we have established at Chalk River a Nuclear Power Branch, the personnel of which has been recruited from the utilities. The Advisory Committee on Atomic Power serves a dual purpose. First, it permits the utilities to evaluate the economic importance of nuclear power in terms of their respective power needs and, second, it enables us to give our program the shape and direction which is best suited to those needs. The Nuclear Power Branch is responsible for carrying out the design and feasibility studies on various types of reactors—to which I have already made reference—and works in close contact with the scientific and engineer-

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ing staff at Chalk River. Under this arrangement we are providing for the maximum inter-play of ideas as between those who must operate power plants and those who are responsible for their design.

The participation of the manufacturer can involve two stages. First, he must obtain the kind of information about power reactor development which will enable him to determine what part, if any, his company can play in that development. Second, he can undertake the design and fabrication of power reactors and their components, with supporting engineering development programs. At the information stage we are supplying technical literature on power reactor development and we are also arranging frequent conferences at Chalk River, both for individual companies and associations. For example, recently a two-day conference was ar-

ranged for the Pulp and Paper Research Institute.

Participation in engineering development, design and fabrication is obviously the most important side of our partnership with industry. This participation began in a major way on the NRU project. More than 100 Canadian companies have been engaged on the fabrication of parts for this reactor, involving special designs outside of normal manufacturing experience. The contract for the detailed design and construction of the NPD reactor has been placed with a manufacturer. Contracts have also been placed for the design of a research reactor of the swimming-pool type and for the design and manufacture of a loop system for the NRU reactor. Proposals have been invited for the supply of fuel elements for the NRU reactor and for the components of the reactor of the NRX type which we are

building in India under the Colombo Plan.

These are only a few of the highlights of a large and expanding program of industrial participation, but I believe they serve to clarify the respective areas of responsibility. Atomic Energy of Canada Limited must accept the responsibility for supplying the data necessary for the design of nuclear plants, whether they be used to generate electric energy, for space heating, the production of process heat, or for all three, since the nature of the research and development program and its expense are undoubtedly beyond the abilities of the Canadian manufacturer.

The manufacturer, if he is to be in a position to supply the domestic and foreign requirements for power reactors and their components, must be prepared to give effective application to the data which are supplied by Chalk

River. This will not be an easy task, since power reactors and their components do not lie within the normal design and fabricating experience of the Canadian manufacturer. Let us become too discouraged on this score, I might point out that a similar situation exists in other countries. Working as partners, I believe we can create a prosperous industry.

Uranium Production and Purchasing Policy

The development of economic power reactors is one part of the

Canadian program in atomic energy. The production of uranium, the raw material for atomic energy is another part—and one in which we happen to have a very large stake. Canada began to produce uranium for the atomic energy program during the war years and this policy was continued in the postwar years. While the main objective of the program in the immediate postwar years was, and still is, the supply of uranium to the United States for military projects, we have been conscious

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The Atomic Energy Program In Canada

throughout the program that we were developing a resource which would have an important bearing on the peaceful uses of atomic energy.

I am sure you are familiar with the current policy covering the

purchase of uranium. Briefly stated, the position is as follows. The policy of encouraging uranium production by private companies was first announced in March 1948. Those of us who had some part in establishing that policy were

convinced that the mining industry and our investment houses would be prepared to risk investment in uranium production if a decent incentive were provided. This incentive has taken two forms—first, a guarantee that Eldorado will purchase all uranium which is offered under a published price schedule and, second, a guarantee that Eldorado will purchase uranium under a special price formula. In the latter case, the guarantee is subject to certain conditions—namely, that applications for special price contracts shall have been submitted on or before March 31, 1956, and, second, assurance that production will commence not later than Sept. 30, 1957. As it happens, all purchases made to date have been made under the special price formula and on the basis of our present information this situation is likely to continue.

The results of the purchasing policy have been quite remarkable, when one considers the short period that it has been in effect. At the present time special price contracts have been written for

a total value of approximately \$700,000,000. Our expectation is that this amount will be in excess of a billion and one-quarter dollars when the negotiation of contracts now in process has been completed. This means that the gross value of our uranium sales, when all of the mines including Eldorado's mines are in full production, will be at the rate of approximately \$300,000,000 per annum, ranking uranium in first place in the annual dollar value of metals produced in Canada. Since this income will be derived in large part from export sales, uranium production will have a significant effect on our trade balance.

It is estimated that capital expenditures for plant, equipment and machinery, housing, power lines, roads, etc., will be approximately \$270,000,000. Preproduction expenditures—that is, expenditures on diamond drilling, shaft sinking and mine preparation—will account for an additional \$57,000,000. Operating expenditures, during the production period of the contracts, for wages

and salaries, supplies and services, will total approximately \$863,000,000, of which roughly half will be for wages and salaries. This new and important industry will provide direct employment for about 13,000 people and employment for many others in the various industries which support a mining operation.

Certain of the member companies of your Association have played an important part in the financing of this development. Approximately \$100,000,000 of the capital required has been furnished by investment houses, and the major part of this has come from Canadian investment houses. We estimate that an additional \$190,000,000 will be required to finance the companies which now have contract applications in process. I hope that a substantial part of this financing would also be supplied by Canadian investment houses.

The statistics I have given you suggest at once the importance of maintaining the uranium industry as a going concern in the period after March 31, 1962, the present

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termination date for deliveries under both purchasing arrangements.

What do we know about the probable markets beyond the March 31, 1962, date?

Future Military and Civil Uranium Market

I pointed out a moment ago that the main objective of our uranium program was the supply of uranium for military projects. There is no information available at this time as to what the level of demand for military purposes will be after March 31, 1962. The use of atomic energy for tactical warheads and for the propulsion of various types of naval vessels is a new development which may have some effect on the military requirements for uranium beyond 1962. There may also be some significance in the fact that the United States Atomic Energy Commission has extended its domestic buying program to the end of 1966. While the primary purpose of this extension is to develop new ore reserves to replace present reserves, it also in-

dicates that the United States foresees a substantial demand for uranium beyond 1962. What part of this demand will be for military uses and what part will be for civil uses I do not know, nor do I know whether the demand will be such as to require heavy imports of uranium beyond 1962.

Obviously it is very much in the interest of the producer who now has a contract or who may receive a contract that he should obtain this information as soon as possible, but it is likewise obvious that it is difficult to forecast both military and civil requirements beyond a certain date. Each of the special price contracts contains an option clause which permits the buyer to extend the contract at a negotiated price. It may be anticipated that the situation with respect to the exercise of these options will be clarified well in advance of the expiry date of the present contracts.

What do we know about the probable demand for uranium for civil purposes—that is, for power programs?

From my previous remarks it

will be clear that we are now able to predict that nuclear power can and will be used. The extent to which it will be used and the areas in which it will be used will depend, first, on future power requirements and the conventional sources of energy, and their cost, which will be available to meet those future requirements, and second, on the cost of generating power in a nuclear power plant. I think I have also made it clear that there is a close relationship between these two factors.

For example, if we assume that nuclear power can be generated at competitive costs not later than 1965, it is not too difficult to predict in what regions of the world nuclear power will be used in that year. However, even if we were able to arrive at a reasonably accurate estimate of the amount of nuclear power which will be generated in a given region by 1965, we would still be unable to forecast the amount of the uranium requirements for this power, since this will depend on the type of power reactor and the fuel system which are used. Power

reactors differ in many ways but they differ particularly in the amount of energy which they can extract from a ton of uranium, or what is commonly called the difference in the burn-up factor. I think it may be helpful at this point if I attempt to give you a brief description of what is meant by the burn-up factor, since this is necessary to a proper understanding of the economics of nuclear power.

Burn-Up Factor Described

If it were possible to utilize all of the heat potential of a ton of natural uranium, the requirements of uranium for a nuclear power program would be very small. As it happens, there are physical limitations and cost limitations which stand in the way of the full utilization of the heat potential of a ton of uranium. The

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The Atomic Energy Program In Canada

combustible, or to be more exact, the fissionable part of uranium is its U-235 content. Natural uranium consists of one part of Uranium 235 and 139 parts of Uranium 238—that is, the content of Uranium 235 in natural uranium is about 0.7%. When uranium is burned in a reactor, several things happen.

First, some part of the U-235 is consumed.

Second, some atoms of the U-238 are converted into plutonium, which is itself fissionable and can, therefore, be used as a reactor fuel.

Third, certain new elements known as fission products are created. These fission products interfere with, or poison, the nuclear reaction. The effect of this poisoning is crudely analogous to the effect on combustion of the waste products which are formed when coal is burned. This fission product poisoning plus our inability thus far to find materials for sheathing the uranium fuel which will stand long periods of irradiation at high temperatures, without capturing too many neutrons, make it necessary to remove the uranium fuel from the reactor when only a small fraction of its heat potential has been extracted.

While we expect that metallurgical research will bring about some increase in the life of the

initial fuel charge, even under the optimum conditions which we can now visualize this improvement is not likely to increase substantially the amount of the burn-up. Consequently, if we are to obtain a much higher percentage of burn-up, we must find a way of using the unburned or depleted uranium and the plutonium in the spent fuel element. This can be done by extracting from the spent fuel element in a chemical process the unburned or depleted uranium and the plutonium, and by re-entering these to the fuel system of the reactor. This is called recycling. Theoretically, it is possible to continue this recycling until all of the heat potential of the original fuel has been utilized.

However, the cost of chemical processing places some limit on the number of recycles which may be economic—or, to put it another way, at a certain point it may be cheaper to buy new fuel. There are a number of possible approaches to reactor design, as the design affects the percentage of burn-up. These range from what is called a single-pass reactor—that is, one in which no recycling is done—to the fast breeder reactor, which produces more fissionable material in the form of plutonium than it consumes. No one can say at this time which

type of reactor, or which combination of reactor types, will produce the lowest cost per kilowatt hour—the decisive factor in the choice of reactor designs for a nuclear power program.

From what I have said up to this point, I think it will be evident that three factors must be used in assessing the probable requirements of uranium for nuclear power programs—first, the future power demand and the conventional sources of power which will be available to meet that demand; second, the cost of generating nuclear power; and, third, the type of power reactor which will be used. These three factors have been applied in forecasts of the range of uranium requirements for nuclear power programs in Canada, the United Kingdom and the United States over the period of the next 20 years.

The United Kingdom forecast is contained in a paper which was presented at the Geneva Conference by Sir John Cockcroft. The United States forecast is set out in the report of the McKinney Panel on the Impact of the Peaceful Uses of Atomic Energy, which was submitted to the Joint Congressional Committee on Atomic Energy on Jan. 31 last. The Canadian forecast is contained in a paper delivered at the Geneva Conference by Dr. John Davis of the Department of Trade and Commerce, who is Economic Consultant to Atomic Energy of Canada Limited, and Dr. W. B. Lewis, our Vice-President in Charge of Research and Development at Chalk River.

In a recent address to the Prospectors and Developers Association I gave an analysis of the findings of these several documents as they affect the requirements of uranium for power programs. Time does not permit me to give you this analysis, but I would like to repeat the conclusions which I drew from it.

Previous Conclusions Repeated

First, it is impossible at this stage in the development of power reactor technology to establish firm estimates of uranium requirements for power programs. These requirements will depend on the extent to which nuclear power is used—which, in turn, will depend on how soon we are able to demonstrate that power reactors can be operated as a reliable and cheap source of electric energy.

Second, an abundant supply of cheap uranium will be an important factor in determining the choice of reactor types and reactor fueling systems. There will be an incentive to go after higher burn-ups as the cost of natural uranium increases.

Third, even if we accept the most optimistic forecast for the installation of nuclear power stations as shown in the three surveys which I have mentioned, the rate of uranium production which we are now able to project for the early 60's will be greatly in excess of the quantities required for immediate use in power programs in the United States, the United Kingdom and Canada in that period. This condition is likely to prevail until at least 1965, and possibly until 1970.

No reliable forecast is available for uranium requirements for power programs in other countries, but here we should keep in mind that these programs are at a relatively early stage in their development. It does not appear likely that the uranium requirements of those countries which have embarked on nuclear power programs, such as the countries of Western Europe, will reach substantial proportions until well into the 60's.

Fourth, the requirements of uranium for a Canadian nuclear power program—again accepting the optimistic forecast as to the rate of the installation of nuclear power plants—will only take up

a small part of our uranium production over the period of the next 20 years. The requirement in 1966 could be met very readily by the production from one of our smaller mines, and the requirement in 1976 could be supplied by one of our larger uranium mines. This means that we will be dependent on export markets after 1962, as we are at present.

The uncertainty as to the extent of the military demand beyond 1962 suggests that we should anticipate a situation where uranium will be sold under highly competitive conditions. Price will undoubtedly be an important factor in our ability to obtain markets. Even if the military demand continues, this is likely to be the case. I find support for this view in the recent announcement of the United States Atomic Energy Commission, in which it has established a price of \$8 per pound for a high-grade uranium concentrate for the period 1962 to 1966. So far as I am aware, none of the uranium now being produced in the free world is being sold at a price as low as \$8.

Our policy of permitting a full write-off of preproduction and capital expense in our uranium contracts should put the Canadian producer in a strong competitive position. We also believe that we can make a major contribution to cost reduction by improving ore extraction methods. Extraction costs now account for about 50% of the total operating costs for our uranium mines, as compared with costs of 20%-25% for the extraction of other base metals. Eldorado Mining and Refining Limited, in cooperation with the Mines Branch of the Department of Mines and Technical Surveys, has a major program under way in this field.

The uncertainty as to the future military demand also suggests that we should be giving serious thought to the development of new markets. We have recently taken a first step in this direction. Negotiations are under way

whereby the United Kingdom will obtain from Canada a substantial part of the uranium requirements for its nuclear power program. It has also been announced that we will consider arrangements for supplying small quantities of uranium to other countries for research and development purposes. The establishment of an export policy which would permit large-scale exports to other countries is complicated by the fact that uranium can be used for military as well as for peaceful purposes. Our government has taken the position that, if possible, such an export policy should be established within an acceptable international framework. This could be an agency with universal membership such as the proposed International Agency for Atomic Energy, or it could be a regional organization such as EURATOM or the Organization for European Economic Cooperation. In either case, there would be adequate safeguards against the diversion of uranium for military uses.

I hope that there will have emerged from this admittedly sketchy description of the Canadian atomic energy program some appreciation of its nature, its scope, its objectives, and its importance for our future.

The benefits to be derived from the raw materials program can be readily estimated. While there may be disagreement as to how soon we will derive any benefits from the research and development program, there can be no doubt that there will be a need for a new source of energy in this country, if energy costs are not to rise sharply. Nuclear energy will supply this need and, because it can be made available in almost unlimited quantities, it establishes a ceiling for future energy costs. A cheap and abundant supply of energy has been a condition of our remarkable progress during the past 25 years, and it will undoubtedly be a condition of our future progress.

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Central and Investment Banking In Canada

is therefore to meet part of the demand and to that extent damp the rise in interest rates. Central bank action does not usually cause changes in interest rates, but restrains them, moderates them. But since only part of the demand is filled by an increase in the total supply of money, interest rates do rise until there is some abatement of demand, and/or there is a change in the distribution of the existing supply of money, some existing holders being found who will put their money at the disposal of some at least of those who are seeking to borrow. There is thus an increase in the rate of use of the existing money supply, a shift from the inactive deposits to active, as it were.

It is important to recognize that this potentiality always exists to

a greater or less degree, and can at times work against central bank policy. It is particularly important that the process of activation of inactive money should commence before inflationary developments gain too much strength, rather than that expansion of the total supply should continue without limit until it is found necessary to restrict the supply under conditions where very drastic action might be necessary, because the restriction would then have to be sufficient to offset the belated process of activation of previously inactive holdings on a very large scale. The change in interest rates when it finally occurred would then be violent rather than gradual, and failure to moderate earlier the expansion

of credit would lead to a severe contraction.

Perhaps all this sounds rather theoretical, but it is in fact a very practical matter in central bank operations and was very much in our minds in connection with the developments of the past 12 months.

Bank Rate Role

Returning to what happens when the demand for money continues to rise after a condition of generally full employment has been reached, the rise of interest rates in the market may continue to the point where another method of increasing the total money supply may be involved, namely recourse by the chartered banks and by money market dealers to the central bank for short-term loans or purchase and re-sale arrangements. To meet emergency situations and for the smooth functioning of the money market the central bank occupies the position of a lender of last resort. It must always be ready to act in that capacity, for a price, and the price is represented by the rate of interest which the central bank

charges on its advances, in this country called the bank rate. As long as money can be obtained elsewhere at a better rate, no one tries to borrow from the central bank, but if other interest rates rise to a point where it is more expensive for a chartered bank to call its day-to-day loans or sell Treasury Bills, or more expensive for a money market dealer to borrow on day-to-day loans in the market, than to borrow at the existing level of bank rate, then there is a natural tendency to turn to the central bank with its cheaper rate. We are speaking of a situation in which the central bank has

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Central and Investment Banking In Canada

been conducting its open market operations from day to day according to its best judgment of what is appropriate in the circumstances. If it is not prepared to increase the overall money supply without limit by purchasing all the securities offered to it at a given level of security prices, it would be frustrating its own objectives to do so by making loans on a large scale. It must, in such circumstances, raise its lending rate, the bank rate.

In theory the bank rate could be changed every day in very small fractional amounts, but it is usually considered more convenient to do it in rounder amounts at intervals. The Bank of Canada Act requires that the rate shall at all times be made public.

I will not take time on this occasion to relate the history of de-

velopments in the use and significance of bank rate and of the short-term money market in Canada. This was covered in some detail in our annual reports for 1955 and 1954. There have been changes in other countries too. Before the first world war a central bank's discount rate was chiefly significant in terms of movements of foreign exchange and the maintenance of the gold standard; for awhile in later years changes in central banks' discount rates, though recognized as instruments of domestic policy, tended to be rather infrequent and to occur only when it was desired to emphasize a major change in the economic outlook. In recent years much more frequent and

more flexible use of bank rate has been noticeable, particularly since 1951 in the United States, and by February, 1955 the development of our own money market had reached the point where bank rate could be put into commission as an operating factor rather than merely as a symbol.

The question of timing remains of importance. Unless the central bank is going to tie its rate to some fixed relationship with other rates, Treasury Bill rates, for example, the time a change in bank rate may seem on occasion to lag behind, or alternatively to lead the market. A change in the bank rate in either direction may be followed by further market change in the same direction, though not invariably so. Upward movements are more likely to synchronize closely with market changes than downward ones, and an upward change retains some symbolic significance, arising out of the circumstances which give rise to it, for it indicates that the central bank feels that the increase in the

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demand for money at current levels of interest rates is excessive.

Bank Deposits, Loans and Investments, and Sale of Governments

A description of the movement of bank deposits over the past 12 months will provide a good illustration of several points made above and will lead me into a discussion of the part played by investment dealers in the adjustment of demand and supply in the financial field. Total Canadian deposits of the chartered banks (adjusted for changes in "float") rose by \$550 million in the 12 months ending May 30, 1956. This was more than accounted for by a rise of \$310 million in personal savings accounts and of \$325 million in Government of Canada balances. All other deposits (adjusted for changes in total float), i.e., the bulk of the "commercial money," fell by \$80 million for the period as a whole, despite the great rise in bank loans, in general economic activity, and in spending of all kinds.

In the 12 months, bank loans and non-government investments rose by \$1,500 million, or 29%.

During the early part of this period there was in consequence some expansion of total bank assets (and therefore of deposits) but to an increasing extent the expansion of the chartered banks' loans and non-government investments had to be financed by the liquidation of their holdings of government securities. The one has been fully matched by the other for the past six months, and for the 12 months as a whole the reduction in chartered bank holdings of government securities amounted to \$925 million. This was the net result of an increase of \$325 million in Treasury Bill holdings and a decrease of \$1,250 million in holdings of government bonds.

Accommodating such a huge adjustment in the distribution of government securities (in addition to the large sale of Canada Savings Bonds) was quite a challenge for our financial machinery, and those who worked together to make it possible, and particularly the investment dealers, can take a considerable measure of satisfaction from the manner in which the challenge was met.

Distribution of Governments

You may be interested in the figures, on the basis of preliminary estimates for the end of May. It appears that, a part from Canada Savings Bonds, \$400 million in government securities was taken by the general public, another \$400 million by government investment accounts (using money which originated with the general public), and about \$40 million was accounted for by net reduction in the outstanding amount of direct and guaranteed marketable securities of the Government of Canada. Only \$80 million was added to the holdings of the central bank; this was approximately equal to the increase in active note circulation.

The \$440 million taken in one form or another by the government and government accounts was not provided by running down government cash balances; on the contrary these rose by about \$300 million. Notionally, you might say that the increase in Canada Savings Bonds bought by the general public to the net amount of \$340 million (net of redemptions during the period)

provided most of the funds used in the acquisition of securities by government accounts; an alternative way of looking at it would be to match off the net increase in Canada Savings Bonds with

the increase in the government's bank balances. On this view, the funds used to purchase market securities for government accounts were provided by the gen-

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Central and Investment Banking In Canada

central public in a different form, namely, in part by an excess of government revenues over expenditures, in part by public purchase of government annuities, in part by funds accruing to the Superannuation Fund, and in part by other capital receipts of the government.

While the net increase in total holdings of government securities by the Bank of Canada was not large, there was a big change in the character of our holdings, chiefly as a result of the retirement of our holding of \$675 million in 6-month Treasury Notes. The government effected this retirement by increasing the Treasury Bill issue at intervals during the period, by a total amount of \$700 million, of which the Bank of Canada took \$190 million, the chartered banks \$330 million, and the general public \$180 million. In the category of government bonds, as distinct from Treasury Bills and Treasury Notes, the Bank of Canada added \$565 million to its holdings, so that its total portfolio, as already stated, rose by about \$80 million.

Commends Investment Dealers

Having in mind the effect of the sale of the new series of Can-

ada Savings Bonds in absorbing a substantial amount of personal savings, the achievement of investment dealers in the redistribution of marketable government securities was very notable. This was also a period in which life insurance companies were further reducing their holdings of government bonds in order to increase their mortgage loans and other investments — i.e., for the same general purpose as the chartered banks. Non-resident on the whole were also selling government bonds in Canada. Finally, outside the field of Government of Canada securities, it is no news to yourselves that Canadian investment dealers probably raised more money in the period in question than in any other 12 months, on behalf of Canadian provinces, municipalities and corporations. The job of encouraging and mobilizing the savings of the Canadian people, and of directing them into useful investment, and of facilitating the most efficient use of money already in existence, was, I think, carried out with great success.

Short-Term Money Market

After having paid you all these compliments, I had better go on to

say there is still much to be done, bigger challenges to be faced in the future, greater achievements to be sought. The short-term money market has made remarkable progress in the last two or three years, but should be expected to expand and improve substantially in the years ahead. Here, as in the other areas of investment banking, there is need of more capital, for one thing, for the carrying of larger positions, and of improved facilities for arbitrating one maturity against another. Again, the sale of equity participation in Canadian enterprise to Canadian investors, although you come up against the stone wall of the life insurance companies, will offer an increasing field of activity for a long time to come. Progress was very noticeable last year, particularly in the case of "blue-chip" stocks of long standing. In the case of both new issues of common and preferred stocks and of re-distribution of holdings up for liquidation, I know that the members of the Investment Dealers' Association of Canada are as keen as anyone to maintain and increase the Canadian share. This is a field in which several of the chartered banks have on occasion given a lead and played a prominent role by aiding with temporary financing, and I am sure they will be responsive to further opportunities of the same sort.

Secondary Mortgage Market

Another field in which the public interest would be served by an expansion of the activities of investment dealers is the development of a secondary market for mortgages on residential properties. In relation to securities, dealers have long recognized their responsibility to develop and improve secondary markets, the after-issue or between-issues market, in the interest of borrowers and lenders alike. Only in this way can investments be rendered liquid, that is, provided with a market in which sellers can find buyers at any time without too great a change in value resulting from the activity of any one buyer or seller.

The more active and progressive investment dealers, the real architects of our capital market, are now considering ways and means of filling what has become a very noticeable gap in our market apparatus. We do not yet have in Canada a broad smoothly-functioning secondary market in mortgages. The entry of the chartered banks into the field of making and servicing insured residential mortgages under the National Housing Act offers the possibility of a large and fairly continuous supply of such mortgages for resale to other investors. The banks, with their widespread branch system, can initiate and service a much larger volume of mortgage loans than they themselves would normally wish or be able to add to their portfolios. They can put together a representative bundle of mortgages — on properties located in any area or throughout the whole country — with good spread of risk, or what small risk is left after the 98% insurance feature is taken into account.

With a supply of merchandise available, it is up to the investment bankers to make a market for buyers and sellers alike. Some large parcels of insured mortgages have already been sold direct by the original lenders to investors such as pension funds, but there is an obvious need for comprehensive facilities to promote broader distribution. The fact that the servicing function, in the case of insured mortgages, can be separated from the investment function is a great help in finding a broader market—an investor need not confine himself to his own area.

On the technical side, there is need for more study of the costs involved and of the relationship between them—costs of acquisition, of transfer, of servicing the mortgage, cost of money, and cost of servicing the investor. This is familiar ground for investment dealers. I will only make one suggestion. I believe there is a place for intermediate corporations issuing their own debentures secured by mortgages—conventional as well as N.H.A. mortgages—debentures which could be closely held or broadly distributed according to circumstances. Investors who fear, rather unnecessarily I think, that some opprobrium or loss of goodwill might result from occasional foreclosure action might be interested in a mortgage corporation with only a few owners or debenture holders, thus combining impersonal ownership with very small costs of operation.

Among the advantages which would accrue from the development of a broad secondary market would be not only a marked improvement in the investment quality of mortgages because of the increased liquidity, but also a closer integration of mortgage interest rates within the general market pattern because of the greater ease of trading from one kind of investment to another, consequent upon the elimination or lowering of barriers which now deny access to the mortgage market to various classes of investors.

Incidentally, this is a field in which, once any technical problems are overcome, it should be possible for the smaller investment houses to operate as successfully as the larger ones.

I have talked about several specific matters in which the central bank is interested, including a number which are of direct concern to investment dealers, and I have tried to bring out to some degree the relationship between the central banking function and the investment banking function.

The interest of the central bank in all these matters affecting investment banking might be summed up by saying that the central bank believes that its own operations will be the more successful if carried on through a well-established, smoothly functioning financial structure designed to do the best possible job of bringing together saving and investment at the high-

est level that the Canadian economy can sustain.

Central Bank Policy and Limitations

It is the objective of any central bank today, and it is written into the preamble of the Bank of Canada Act, though I am not using the exact words of that preamble, that monetary policy should use its influence to encourage the full employment of productive resources without inflation of the price level, and to assist in the processes of economic growth on the highest sustainable level, which means, if at all possible, stable growth solidly based.

No one recognizes more clearly than a central banker that there are limits to the effectiveness of monetary policy. It is by no means the only factor influencing economic activity. The non-monetary fields of domestic policy, including fiscal policy and the various economic activities of all levels of government, are of the highest importance and may have more effect on the overall situation than monetary policy under certain conditions. I have said nothing today about international influences although we all know that events entirely beyond our control, developments in large countries abroad, can have a very great impact on Canadian production, employment and prices, and produce fluctuations which domestic policy could at best mitigate, not entirely overcome. And finally there are numerous decisions taken in the economic sphere by producers and consumers alike for reasons which are sometimes wholly beyond the influence of overall monetary factors.

There is one other point I should like to make in relation to monetary policy in its proper sphere of action. That is that by its nature it must be general rather than specific in its effects, national rather than regional in its application, and that its economic impact is of necessity indirect, through its influence on money and credit and the total financial environment, rather than acting directly upon any particular kind of economic activity. It is the object of monetary policy to exert

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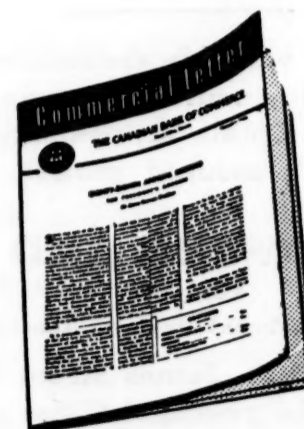
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its influence gradually and in the most flexible manner, preferably by continuous small adjustments, rather than abrupt drastic changes; it must be ready at all times to adapt to actual conditions rather than adhere to preconceived ideas.

One factor which I need hardly emphasize in talking to investment dealers is that effective monetary policy in a free economy would be completely incompatible with rigidity of interest rates. Variations in interest rates, especially those applying on marketable securities, are evidence of changing conditions in the supply of and demand for money and credit, and a necessary and desirable consequence of such changes. Fluctuations in the price of money are to be preferred to fluctuations in the price of goods, that is to say, in the cost of living and the costs of production of our economy, and can be an important influence in minimizing unemployment and facilitating healthy growth of the economy as a whole.

Monetary policy as such operates indirectly without specific direct controls. Direct controls, whether of fields of credit or of production and distribution, may under some circumstances appear temporarily necessary in the public interest, but monetary policy in the strict sense of the term is within the limits of its effectiveness, the alternative to direct controls. It is an essential instrument of freedom in the economic sphere. Indeed, the whole of our financial structure in this country as it has developed and as it is further developing today is an instrument for the buttressing of economic freedom and the encouragement and development of the highest possible degree of economic and social welfare. All those who are concerned in the overall financial process, all of you here today, are contributing to this objective and share the responsibility for the degree of progress that may be from time to time achieved.

Continued from page 6

Long Range Planning for Canadian Oil

for relative efficiency. An increasing reliance of the Canadian economy on petroleum is certain.

Canada occupies an important position in the free world's oil picture. She has great reserves capable of development and this in a situation on which the Western Hemisphere is becoming increasingly dependent on the Eastern Hemisphere for its petroleum supplies. Canadian petroleum therefore has particular strategic significance. The capital requirements to assure Canada's potential petroleum growth are so enormous that she must take advantage of every money source available to her, domestic or foreign. This again calls for bigness in planning. And I will have more to say about it.

Monetary Depreciation of Income

One of the oil's serious problems, which it shares with industry generally (but feels more acutely than most because of its diversification) is the depreciation of our income.

Depreciation of money has far-reaching repercussions on the pace of economic progress. It is particularly important to oil companies which typically have continuing high capital requirements. Inflation, as well as gnawing into profits and thus diminishing the principal source of new capital funds, simultaneously reduces the real value of past accumulations. Intended to cover the renewal of assets. Tax allowances, and corresponding provisions for amortization during the life of capital equipment, pay no regard to the declining value of money. It thus becomes necessary to supplement these with additional provisions from taxed profits. These provisions also, however, are subject to a steady decline in their real purchasing power. So-called profits must therefore make good the loss in money values in respect of past investment, as well as providing capital for modernization and expansion.

Consider the gravity of this in relation to the total bill we have to face. It is generally estimated the total bill facing the oil industry in Canada over the next decade is some \$8 billion (eight thousand million) of new investment in today's dollars. The construction content of this bill is presently inflating at the rate of one-half of one percent per month. Think of that in terms of long range planning. It brings

me to the main and concluding part of my remarks.

With a task of this size facing us surely it is the height of folly

to consider any restraint on the free flow of capital from any source? Surely the important thing is the greatest possible use of capital from all sources to create the greatest possible growth in real wealth per capita. We have seen that this means parallel maximum energy consumption. It also means maxi-

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Long Range Planning for Canadian Oil

maximum jobs for Canadians—maximum employment and maximum management.

Shortage of Skilled Help

In looking at a total bill of \$8 billion for the oil industry in 10 years and the fields of endeavor in which it will provide opportunities for Canadians, one sees the following picture. A classic division of capital investment by the oil industry is:

Exploration & Production	75 %
Refining and Chemical	10.6
Pipe Lines and Marine	6.6
Marketing	6.2
Other	1.6

You will see from the foregoing what a preponderant share of the oil industry's activities is carried by men and women trained in the applied sciences. And once again we find a sphere where Canada is not planning big enough. The things I have advocated — maxi-

mum employment and maximum management for Canadians — are impossible unless Canada produces the necessary numbers of professional personnel—especially people qualified in the applied sciences. At the moment there is reason to fear she may not do so. In this, government, industry and our educational institutions face a serious responsibility for bigness in long range planning.

I believe government, industry and education will realize the danger before it is too late. I believe that young Canadians—with the proper guidance from these three—will realize the great opportunities in a career in the applied sciences which they all too far from realize today. If we succeed in this—and surely this must be our aim—how can we limit those opportunities by restricting the flow of capital into our country?

Should Welcome Foreign Capital

Nothing in my view could be more serious for Canada than smallness in planning in this matter of foreign capital. I have tried to show you the magnitude of the energy task facing our nation. But the very magnitude of the vista makes it difficult to see it totally. One tends to concentrate on details of the landscape. And that is just the danger. I feel so strongly about this subject that when I talk about it I want to use terms which will shock my hearers into sitting up and paying more attention than I usually am lucky enough to get. I want to say something like this—that talk of restricting foreign capital is to my mind not merely smallness in planning, but literally "small town."

Improve Our Tax Laws

Instead of crying about foreign investment in the oil business (and let's face it—foreign investment has been willing to take risks in the past which we Canadians were reluctant to take) we should first put our own house in order. I appeal for no restraint on the investment dollar available to us, no matter where it comes from. But I appeal also to our government to remove restraints on our own Canadian investment dollar. It is only recently that a many-years-old tax deterrent against forming subsidiaries with more than 5% Canadian capital has been recognized by government and seems likely to be removed. Every oilman knows a domestic Canadian company drilling for oil is at a serious disadvantage taxwise against a United States company charging

its Canadian drilling operations to its United States income. This is because the United States tax treatment of oilfield depletion is substantially more realistic than that prevailing in Canada. And because a far-sighted government in the United States allows the cost of foreign exploration for oil to be treated taxwise as though it had occurred at home. That is bigness in tax planning. A simple step by which the Canadian Government can put the Canadian oil company on a par with the United States oil company, and consequently the Canadian investor in oil on a par with the United States investor, is by placing the Canadian tax treatment of depletion on a par with the United States. That would be bigness in planning.

Time does not permit me to go into these tax questions in detail. I did go into detail at your annual meeting two years ago. I mention it in general today only to explain how thinking Canadian oilmen, who are trying to plan long range, approach this matter of foreign capital. The positive approach is to remove the deterrents on Canadian capital. The negative one—which unfortunately has all too tempting an appeal to prejudice—is to shut the other fellow out.

Oilmen Are Free Traders

So I am one Canadian (one of many I know) who says—"Welcome!" to the dollar that offers to help us develop our country, no matter where that dollar comes from. Rather than say to the foreign investor — "We don't want you," I would say this. I would say—"Come in and help us develop our country. Then go to your own country and help us sell our goods to your fellow-countrymen. As an investor in us

you are vitally interested in our country's healthy trade." As an oilman, I would say to the foreign investor — "Oilmen are by nature free traders. We put no tariff on your oil coming into our country. In your country work for the removal of the tariff against our oil which you need and in which you are investing."

Threshold of Industrial Development

Canada stands today, I believe, on a threshold of industrial development similar to that of the United States some 50 years ago. Much of that great growth which the United States experienced, certainly in the first half of that era, was financed by foreign, and especially British, capital. I lived as a Britisher in the United States for many years. I never heard that this foreign investment ever led to any foreign domination of the United States. Indeed I never heard that any American ever feared such domination as a result of foreign capital. He was delighted to accept it and to use it in the development of his country. If we will accept capital from all sources to help us develop our country over the great half century that I am sure lies ahead of us, I predict we will be a predominant exporter of capital to other countries by the year 2000. The shoe in fact will be on the other foot. Already we have invested in countries outside Canada about half of the total foreign investment in Canada now. And as our foreign investment increases — as increase it will — I trust that those foreign countries in which we invest will not exhibit the same small town mentality which some of my fellow-Canadians today exhibit towards others who pay us the compliment of investing in us.

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Keeping Canada's Air Transport In Forefront

only 10 years ahead and be practical about it, at this time.

Speed of Sound Commercial Problem

We believe, and I think a great many in the industry feel the same way, that it is going to be a technically difficult problem to push a civil aircraft through MACH 1, the speed of sound.

The technical complications are very serious. I should mention that it is only recently that military aircraft in normal level flight have gone through MACH 1 into the higher speed ranges, and it would seem to us that it is infinitely more complicated to put a commercial vehicle through the sound barrier, without disturbance to passengers, and at the same time, at an economic cost

insofar as the carrier is concerned.

We also have to consider, in looking beyond 10 years—I am trying to indicate to you the problems of forecasting beyond that period—the field of atomic-powered aircraft.

Here we have another problem. It is not inconceivable to look forward to atomic-powered aircraft, but in prophesying atomic power for aircraft we must not overlook the possible effect of complete destruction on the ground or in the air of such an aircraft.

The consequent release of radioactivity would not differ substantially from that following the detonation of a small atomic bomb, and might make the surrounding area untenable for some lengthy period.

While it is entirely possible this

problem will be overcome, I think it can be said that it seems reasonable to forecast that atomic power for civil aircraft will not be in service in the next 15 years.

Air Investment Outlay

Another difficulty in looking beyond 10 years is the financial aspect of the overall situation. For example, in 1949 my particular company had in operation a single type of aircraft, the Lockheed 14.

Exclusive of spares and ground equipment, this aircraft cost us \$105,000. Since 1945 my company has purchased DC-3s, North Stars, Super-Constellations and the Viscounts, for the specific advantages each type offered. We now have placed orders for long-range jets.

All these aircraft have cost more per seat mile than the earliest type. The latest aircraft we have ordered, the Douglas DC-8, exclusive of spares, will cost us in the neighborhood of \$5½ million each.

I think you can therefore see the quandary in which we, as well as other carriers, incidentally, find ourselves in financing the tremendous increase in price which is due, in the most part, to technological progress and basically, to advances in design.

In fact, I recently overheard one of the most prominent senior airline executives say he would give his eye teeth if engineers and designers would only take a holiday, as financing the new projects is the major concern to his particular company, and it is just as difficult to find the money—if not more so—as it is to obtain the new types of aircraft.

In view of what I have said, then, I think I should confine further remarks about the future of Canada's air transport to the next 10 years.

In discussing the future, I think we have to do so in three distinct areas of operation. They are as follows:

Northern operations.
Mainline operations.
International operations.

Air Activities in Its Northern Operations

In the first area, namely, Northern operations, I would classify such items as

Charter flying.
Special airlifts—the DEW-Line and Mid-Canada lifts.

Aerial spraying—in the timber areas of New Brunswick.

Aerial surveys—for the industry and for the nation.

Development of new mining ventures and projects—Labrador mining development.

And many other similar types of operation.

As you all know, the vast dis-

tinues in Canada demand the kind of transport that aviation supplies in our Northern areas. I think it is very safe to say that Canadian developments in these areas, insofar as aviation is concerned, are the direct result of geography.

Looking at civil aviation in this field, it appears reasonable to say there is little doubt that the future was never brighter.

In the helicopter field, the demand in the Northern areas for this type of service increases each

year and, in fact, there are now over 60 civil aircraft registered in this service. The rotary-winged aircraft are playing an increasingly important role in the development of our natural resources, and many consider them indispensable to civil and government use.

Aerial surveying in Canada is experiencing a phenomenal growth and this country now leads the world in the development of airborne geological survey equipment

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Keeping Canada's Air Transport In Forefront

and techniques. It is reasonable to forecast that due to these advances the geo-physical industry in Canada will double in the next two years. To emphasize this point, since 1952 approximately three million square miles of Can-

ada have been surveyed by air, plus an additional 1½ million line miles flown on mineral and oil surveys.

Canadian registered aircraft are operating on aerial survey work in countries all over the world.

Of course, we have all read about the DEW and Mid-Canada Air lifts. These now absorb the attention of many civil carriers and probably will continue to do so for years to come.

As of January 1956, upwards of 42,000 tons had been moved by air on the DEW-line alone. The wealth of experience gained in the operation and maintenance of multi-engined aircraft under severe Arctic conditions has been of inestimable value to our civil carriers and to this country.

I can see nothing but an extremely bright future for the development of civil aviation on our Northern areas.

Mainline Activities

In discussing mainline developments, it is a little easier to define the future.

Here we have a record of what has happened, which is statistically sound, and we have forecasts of the next 10 years of what we think will happen.

Taking Toronto as an example and dealing only with our own company statistics for the moment:

At that point, in 1956 we believe we will process approximately 800,000 passengers — and by "process," I mean emplane and deplane. In 1965, we anticipate that 1,700,000 passengers will be processed—a growth of about 112%. These figures do not include "through" passengers.

I think you will recognize that the future offers quite a challenge in the planned development of air transportation in Canada.

At the risk of bringing to your attention things that *might* happen on mainline services in Canada, I would like to make the following observations:

Improvements Will Have to Be Made

New runways will have to be built, and at some airports, present runways will have to be increased in size. In some cases at the larger airports, existing runways will need considerable strengthening to bear the weight of the new and heavier aircraft types and, in other cases, new airports will have to be built in their entirety.

The problem of congestion at airports is becoming increasingly acute. Measures must be taken for the creation of satellite fields which will permit the segregation of military and lighter aircraft in the growing volume of civil aviation operations.

New and larger terminal facilities must be provided at the majority of Canadian airports. These should include adequate accommodation for the handling of passengers, mail and cargo as well as for ground transportation.

The past ten years have shown

a rapid development in the technical aids to navigation over land, sea and in the vicinity of airports. It is expected this trend will continue, and it would seem that advantage will have to be taken of these technological improvements which translate themselves into improved regularities, safety, and further freedom from dependence upon the weather.

It can be forecast that the current program of replacement of the existing Canadian system of medium-frequency of radio ranges will be carried to its logical conclusions, and that installations of navigational aids in the vicinity of airports will be greatly improved and augmented.

Automatic approach aids should make it possible for civil aircraft to operate safely under far worse conditions of cloud ceiling and visibility than is now possible. The effect of this development on flight regularity naturally should be marked.

Airborne radar will continue its spectacular development with respect to storm surveillance and navigational systems, as well as flight control of the aircraft itself.

As in the past, it can be expected that the most dramatic

progress in technological improvements will be made in aircraft design and construction. We are already seeing these improvements, at least on paper.

From the inception of aviation until April 1, 1955, all civil aircraft on this continent were powered by one form or another of the piston-gasoline engine. On that date, the turbo propeller-powered aircraft came into scheduled use in North America. It is safe to predict this type of power will rapidly replace the piston-type engine over many routes during the next 10 years.

Full Jet by 1965

As I mentioned previously, it is safe to forecast that the full jet engine will come into extensive use on the longer national routes during the next 10 years.

The use of rotary-winged aircraft in mainline operations is difficult to predict at the present time. Although important advances have been made in helicopter design, an aircraft capable of operating economically and with an adequate margin of safety for civil use, has not emerged.

Serious consideration also must be given to the development of an

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entirely new type of vertical-thrust aircraft, and recently those of you who read "Time" magazine, will have noticed some discussion of this matter.

The nature of aircraft which will transport freight in the future is also a matter of intensive study. Whether cargo and mail are more economically carried as part of the payload on a passenger aircraft, or in aircraft either designed or modified for that specific purpose, depends upon the

relationship of the volume of cargo traffic and passenger traffic on any specific route.

At the present time, with a few exceptions all-cargo aircraft in current use are adaptations of basic passenger aircraft, and it is not unlikely this condition will continue for some time to come.

Consumer Rate, Labor and Total Unit Costs

With respect to the cost of air transportation—a very important

item to all those present — we anticipate the price of labor will continue to rise.

On the other hand, it is hoped and expected that other costs will decrease.

We are aware of the fact that capital outlay per installed aircraft seat will rise, but it would be reasonable, from what we know of the future, to expect the cost per seat mile or per available ton-mile, to decrease slightly as aircraft speeds increase, providing the rise in labor costs does not offset the effect of the increased speed.

Weighing the factors which would seem to affect future cost trends, it would seem reasonable to forecast a downward tendency in both the direct and indirect cost per unit of air transportation provided. This being so, it would also be reasonable to forecast that the cost to the consumer of air services should decrease over the next 10 years.

International Operations

In briefly mentioning international operations, Canadian carriers now serve South America, Mexico, West Indies, Bermuda, the United Kingdom, France, Germany and Holland.

As well, a Canadian carrier serves Australia, New Zealand, Honolulu, and in addition, Hong Kong and Japan.

In the next 10 years, it seems to me there will be further expansion of Canadian international services, but, of course extension depends to a great extent on arrangements made between governments.

International air routes require what is called a "bilateral" agreement to be negotiated between governments, and these are usually settled on a *quid pro quo* basis.

Insofar as international negotiations are concerned, Canada is particularly well situated, geographically speaking. By flying the polar, or sub-polar routes, the foreign carrier is able to shorten distances between points in different countries—but agreement is required if these aircraft fly over Canada and land, for other than refuelling purposes.

Today, a fair number of carriers are considering such a route, or routes. My point is: if this trend continues—and there is reason to believe it will—this nation will be, and in fact is now, in a sound bargaining position insofar as international routes are concerned.

In passing, I would like to make reference to the International Air Transport Association, of which most of you will have heard.

This is a very wide-spread organization with headquarters, incidentally, in Montreal, and is an association of all the major international carriers.

As a result of the activities of this association, and with the co-operation of the airlines, it is now possible to ship by air between all the principal cities of the world, and to transport passengers

by air between the principal cities of the world, on a standard way-bill or ticket at rates using easily determined combinations of fares.

The association is not a rate-making group, however—it is a rate-agreeing group, but all governments of the member carriers must approve resolutions agreed at any general meeting of IATA prior to their becoming effective.

At the present time, there is quite a substantial move afoot to

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Keeping Canada's Air Transport In Forefront

introduce a third type or class of carriage of persons on the North Atlantic Services, which will undoubtedly—if approved—be provided on other international routes.

The way things are shaping up makes it seem that within the next few years we can look forward to a three-class type of service:

First-class
Second-class
Tourist-class

I would forecast that the rates for Tourist-class service on the North Atlantic segments will be competitive, as far as initial dollar outlay is concerned, with Tourist rates provided by shipping companies.

This, if it comes about, means

a large expansion of the market for air transportation on the international routes, such as I have mentioned.

It means that possibly for anything from \$175 to \$250 one-way, a passenger will be transported by air to Europe in a matter of 10 to 12 hours, and probably a good deal faster than that in the years 1960 to 1965.

On the basis of the topic assigned me, I have attempted to give you some idea of the outlook in the next 10 years, sketchy as it may seem.

Impact Upon Canadian Commerce

But what does all this mean to Canadian commerce? How are we and our business affected? How does it concern our planning for the future?

I don't think any of us should sit idly by and not take into consideration the progress which will be made in air transportation in Canada in the next 10 years, not to speak of the international routes.

Can we, as businessmen, neglect the following estimates, for instance, with respect to the speed of the movement of people and goods between the cities named, which I feel are practical and foreseeable by the years 1960 to 1965:

For example, we forecast the elapsed flying time between—
Toronto and London, England will be 6 hours 45 minutes by 1961;

Toronto and Halifax will be 2 hours 5 minutes by 1962;
Winnipeg and Toronto will be 2 hours 10 minutes;
Toronto to Vancouver will be 4 hours 50 minutes; and
Vancouver to Newfoundland will be 7 hours 45 minutes, allow-1 hour for connections.

As an example of what this means, it would seem quite within reason to forecast (dependent on actual schedules) that an Eastern businessman could go to the West Coast, do a few hours' business and return to Toronto, say, to sleep in his own bed that same night.

It is quite within reason to expect that, providing the means of communication are available to his shop and that warehousing, shipping arrangements, etc., are geared accordingly, a customer in a shop in Vancouver could receive his order from an Eastern manufacturer within 12 hours of having placed it.

Truly, the development of the jet age which is now upon us will play a most important part in the future development of this country.

Some people say "Why do we need to go any faster than we do today? Why is it necessary, or desirable, to go (say) from Toronto to Vancouver in 4½ hours?"

When we think of the impact of closer communication between the various parts of this country, and the better understanding that results as a by-product of that closer communication—I think we can quite rightly say that the higher speeds forecast can have only a beneficial effect on the knitting together of this nation, and from the international viewpoint, the creation of a better understanding between all peoples.

Continued from page 7

Canadian Telecommunications Today, Tomorrow

creasing by about 3 million annually. When the new switching arrangements are fully operational you will be able to dial your own long distance calls to practically any one of those telephones—whether in Vancouver or Seattle, Winnipeg or Chicago, just as you now dial them within your own city. However, any call which both begins and ends in Canada will travel entirely over the lines of Canadian telephone companies.

Of course this is no overnight job. The first stage is operator distance dialing, and that is already well advanced with close to half the long distance calls made in Canada now dialed direct by the operator. The first customer distance dialing in Canada will begin next month in Windsor, when telephone users will be able to dial their own calls to Detroit and a wide area of Southern

Michigan. It will be introduced on a more considerable scale in 1958 in Toronto, and the following year in Montreal, and from then on steady extension may be expected.

The machinery for such a project has two essential elements. First, installations in strategic locations which will direct any long distance call to its destination automatically and at high speed. Second, a network of alternate routes flexible enough to carry the call there without delay. We have opened automatic long distance switching centres in the past 12 months in both Toronto and Montreal. Similar centres are scheduled for Saint John, N.B. and Regina. The microwave radio relay system will form the main artery of the Canadian long distance network, and it will connect with the extensive network

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that is being developed in the United States.

These projects are far more than fascinating examples of technical progress. The fundamental fact is that only through high-speed automatic switching and microwave radio relay or its equivalent can we handle efficiently the rising volume of long distance calls.

They are the product of telephone operations on a national—indeed a continental—scale. Work of similar scope has been undertaken in the service of the national defense.

Mid Canada Early Warning Line

The Trans Canada Telephone System was appointed management contractor for the Mid Canada early warning line; our company is acting as the project agent. Stretching across the country westward from the Labrador coast, the Mid Canada line is part of the great network of radar stations and communications systems that has been developed jointly by Canada and the United States. Hundreds of telephone engineers and skilled craftsmen are presently employed on the undertaking in cooperation with representatives of other Canadian industries. They are working under rugged conditions—far from

roads and railheads—where all supplies must be delivered by plane and helicopter, or by landing craft on stony beaches, or by tractor trains driving across the frozen wastes. That we have been able to set up the vast technical and administrative organization required for this undertaking without disruption of our regular service commitments, is, I think, an important commentary on the resources and abilities of the Canadian telephone industry.

There are a number of different ways of viewing telephone development. I have mentioned some of them—the increase in customers and calls, the addition of equipment to meet demand for service, the geographical expansion of our activities both through work in national defense and by the provision of communications for distant mining settlements or farming areas. I would like now to tell you something about what I might call development through diversity. It follows from our awareness of the very many types of information that telephone facilities are designed to transmit. Microwave radio relay carries television programs. Printed messages are sent by teletype over Canada-wide networks. Many of you will be familiar with this service in your own offices. Other

special services include the transmission of news photographs and radio programs, information and instructions needed to control electric power grids and oil pipelines, blueprints and diagrams, coded data for processing by electronic calculators. And radio telephone service is available in many parts of the country—both to vehicles and shipping. My own company, for example, operates mobile telephone service across the most populous and industrialized sector of Canada—from Windsor to Quebec City. The Northwest Telephone Company provides telephone service by radio up the B. C. coast to over 2,500 tugs and fishing boats.

Mechanization

These are some features of the 1956 telephone picture—as it appears to the public. I would ask you now to accompany me on a brief visit behind the scenes—to see what is being done technically in order to consolidate these advances and prepare for new ones. The first broad trend of development is ever-greater mechanization. The word “mechanization” is pretty controversial in many quarters, but it's an old standby in the telephone industry, in fact our long-tried aid in meeting greater demand for service.

Thirty years and more ago we began to mechanize local telephone service—that is, to convert it to dial—primarily because we couldn't provide enough service any other way. Today we are converting long distance service to dial—with Direct Distance Dialing. And we are of course still pursuing a vigorous program of local mechanization. Today over 70% of all Canadian telephones are dial-operated. One important development along these lines is the rapid spread of unattended dial offices. In small communities—and certain suburban areas—we are installing dial offices which operate without any permanent attendance. Plant men make scheduled visits for maintenance. Telephone calls requiring assistance are switched automatically to an operator at a centralized location. The service is efficient and economical to operate.

But it has one drawback—a drawback common to all processes of mechanization. It does lessen the occasions for personal contact, in this case between telephone employees and our customers. We have learned over the years how much people expect and appreciate friendly, helpful service from their telephone company. Such treatment is an important, even though an intangible part of the quality of service. We are doing all we can to maintain the tradition in changing circumstances.

And this calls above all for awareness that mechanization is an aid to better service and never an end in itself.

We have needed, as I mentioned, equipment of great complexity to provide efficient service. This has been created through a tremendous effort of scientific development. Not only of applied science but of what I might call research in depth.

It is not just a question of adapting known materials and proven scientific facts to our daily operations. The telephone scientists must hunt out materials and

scientific data to be useful not only in the immediate but in the quite distant future. Pure research and practical technology are both essential.

Solid State Physics

In the past decade solid state physics has provided our most profitable area of research. Telephone scientists began to seek knowledge here before the first world war, and their research yielded over the years a number of helpful devices. But their most recent discoveries constitute a

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Canadian Telecommunications Today, Tomorrow

veritable treasure house; they include the transistor and the Bell solar battery. Developed primarily for the telephone industry, these devices have application wherever electricity is put to the service of man—from the most compact hearing aids to immense electronic calculators.

The transistor, discovered in 1948, was the breakthrough. Here is one of the latest varieties of transistor, and here is an enlarged model. Most transistors are made of germanium, a semi-conductor of electricity. While normally resistant to the flow of electricity, germanium can be made to conduct electric currents effectively when treated in a certain way. It is a by-product of lead and zinc refining, but has to go through an extremely detailed process of purification. With a measurable impurity of one part in ten bil-

lion, germanium has been described as "the purest substance ever achieved by man."

What will the transistor do? Regard it first in relation to the vacuum tube. A transistor will do most of the work done by a vacuum tube. Say a tube of this size. It will amplify electric power, control it as a valve would or act as an electronic switch. There are still, of course, new developments in the gas-tube field. For example, this compact vacuum tube which is the work horse of the microwave radio relay system. It will amplify up to 480 telephone conversations at the same time. But the latest transistor will amplify 2,500 conversations on a single telephone line.

The small size, the compactness is one quality of the transistor immediately apparent. And other components of transistorized tele-

phone equipment can be similarly reduced in size, affording important savings in space and raw materials. This is a complete ten-stage transistor-oscillator assembly. Here is the piece of equipment it can replace.

Also the transistor is solid, and this makes it remarkably rugged. We expect it to have far longer life than the average vacuum tube. It needs no warmup period but goes to work almost instantaneously. You will recall it takes several seconds to warm up the tubes of a regular radio receiver.

Another advantage is the low power consumption — about one millionth of a vacuum tube's. This is another kind of transistor oscillator prepared for demonstration purposes. Plug in the power and it will sing for you even if only on a single note. A battery is needed, but the power supply required to operate the transistor is so minute that with just a coin and a scrap of damp paper we should be able to construct an adequate wet-cell battery. Perhaps I can test my credit at the same time; would you please lend me a quarter, sir. Now let's try it out. The slight chemical reaction between the wet paper and the metal coin produces our current. Now I'll connect the oscillator.

The transistor has made possible a telephone set you can carry around in your pocket — should you want to. I haven't got one in my pocket today and I hope that I never shall but I have here a related device—a complete radio transmitter, with microphone and antenna. I'm going to switch off the public address system and broadcast to you over transistor station VE9LU. This is a transistor-operated radio transmitter. It contains a power supply adequate for several months' round the clock broadcasting.

The transistor is already doing a number of telephone jobs. You will find hundreds of transistors in the heart of the equipment which switches long distance calls automatically across the continent. A transistor-operated telephone system is now being developed for rural lines. It should prove a considerable aid in limiting construction costs, for one line can be made to carry the load of five. Transistors are also used as amplifiers in telephone sets for the hard of hearing, and we are experimenting with sets in which musical tones operated by transistors take the place of the familiar bell—at a considerable saving in electric current. It takes much more electric current to ring your telephone bell than it does to carry the conversation.

Bell Solar Battery

I mentioned other solid-state discoveries. Perhaps the one with the greatest appeal to the imagination is the Bell Solar Battery. It can convert energy from the sun directly and efficiently into usable amounts of electricity. The solar battery attains an 11% efficiency which compares favorably with steam or gasoline engines. It has no moving parts; nothing is either consumed or destroyed by its operation, and in theory it will last indefinitely.

However, I trust you will not get the impression that we have here the answer to the world's power problems. For in the communications industry we're interested above all in the availability and ready source of energy—rather than the amount. It requires only a fraction of a watt to energize a modern telephone, and a solar battery easily provides this. Now here is a solar battery. It consists of three small pieces of specially treated silicon. Each is about the size of a quarter. I will connect the solar battery with this telephone set; the telephone is also connected with the public address system. The solar battery is naturally sensitive to any kind of light. Even the light from a match. That was a rather

more explosive sound than you'd expect from striking a match.

I have a light on my lectern here. Let's see what effect it has on the solar battery. The noise you now hear is created by the 60-cycle alternating current that powers the light. To imitate the sun efficiently we must have a direct current light source, and so I'll put this battery-operated spotlight to work. The telephone over which I am now speaking is quite dead. But when I place the solar battery in the path of our substitute sun you should hear me quite distinctly. The Bell solar battery is converting the light into electrical energy which in turn is operating my telephone.

I remove the battery from the light—and I have to rely on my own unaided voice. Put it back, and I can talk to you over the telephone—powered by the solar battery. Last year saw the first practical application of the solar battery in the telephone industry. Down in Georgia a battery with 432 discs supplied power for amplifier stations in the transistor-using rural telephone system I spoke of earlier. And I would mention that the usefulness of the solar battery is not limited to the sunny south. It will function even when the sun is behind clouds, and the electricity it

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produces can be stored in batteries for night-time use.

And now, you may well ask, where do we go from here—in what we in the telephone industry, among others, rather loosely call the electronic era?

Well, in 1958 the Bell System is going to test its first electronic office. Even in the modern telephone exchange, switching is still an electro-mechanical operation, however rapid. With the use of transistors and the various other miniature devices for storing information and making connections, the completely electronic exchange begins to take shape. So little electric energy is required to transmit telephone communications that the tiny solid devices will be able to handle vast quantities of traffic.

There will be no mechanical movement, just the ultra-rapid journeying of electric current through thousands of tiny, fantastically sensitive components. We may have to wait quite a time before the electronic office becomes standard equipment, but I have no doubt it will be one day — and bring us significant savings in construction and operating costs.

Capital Investment Required

But, all of this, as you well know, requires a high level of capital investment. Growth must be financed principally from outside the business and for the larger part of the industry this means regular approaches to the Canadian investor. In the past decade we have been responsible for more than a quarter of the common stock financing in this country. From year to year this proportion has varied considerably—in two of these 10 postwar years our equity financing accounted for nearly 70% of all such financing in Canada. And I would like to emphasize how much the telephone companies have appreciated the helpfulness and goodwill manifested by your profession. But surely in return we have done something to expand in no small measure the volume of your operations. If that be true, I am sure you will welcome our calling upon your good offices frequently in the future.

The total investment in plant and equipment of the telephone industry is now in the order of \$1,500,000,000. Because of the vast distances that have to be traversed and our even more rapid postwar growth, investment per telephone is higher here than in the United States. At present the industry is spending some \$200,000,000 annually on new construction. In the brief that I was privileged to present to the Gordon Commission on behalf of the Trans Canada Telephone System,

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Significant Canadian Economic Developments

be more sensitive to changes in business conditions. In line with this and in the light of the responsibilities of the Bank of Canada, the harder money policy presently being followed should be viewed as a form of "brake" on our economy designed to prevent it from being over-accelerated.

In regard to the broader aspects of monetary policy, may I say that the experiences of the past half century have clearly demonstrated

expenditure over the next 25 years was estimated at over \$3,000,000,000. By 1980 the total investment will be about three times its present figure.

I see no reason why the major part of this vast sum should not be obtained from Canadian sources. This is surely a most worthwhile field for Canadian investment, as it is for Canadian endeavour. As Canada grows, expanded and improved telecommunications services are indispensable to meet the needs of business, of government and of individual Canadians.

I certainly do not need to talk to you about the desirability of spreading the ownership of industry as widely as possible among the people of this country. You are well aware of its economic, political and social advantages. Nor do I need to emphasize the support for this concept given by the shareholder-owned telephone companies. My own company, for example, is presently the property of over 125,000 shareowners, the largest number of any Canadian company. And we rank about 16th on the North American continent.

My talk today has dealt with the scope and growth of the telephone business in Canada, and the research which offers such great possibilities for further progress. There is but one single purpose inspiring all this activity. The solar battery would have no more value to us in the telephone industry than the common sand from which it evolves if it did not offer the opportunity to further improve telecommunication services. And that is true of every other scientific and technical advance in our industry. This thinking has inspired telephone development in Canada from the earliest days, and it will, I assure you, govern our efforts in the years of challenge which lie ahead.

the necessity of building into our free enterprise economies certain checks and balances in order that progress may be achieved in orderly fashion. The evils of both inflation and deflation are all too well known, at least to those of us who experienced the great depression of the 1930's which shook the entire world, swept away savings and employment, slowed economic progress to a snail's pace and fanned the flames of the ensuing terrible world conflagration. As I have said on several other occasions, I believe that soundly administered monetary controls will help to contain the business cycle within more narrow limits than in the past and reduce the tendency towards booms and recessions. Our experience in the application of checks and balances

has been actually rather limited—much is still to be learned. I believe it is sound that our monetary authorities should resist the forces of severe inflation for many reasons, not the least of which, is the fact that it discourages saving. Canada is a growing country requiring a vast amount of capital for its development. Much of this capital must come from the savings of the Canadian people and the conversion of these savings into capital is one of the principal functions of our industry.

Volume of Financing

Turning to the matter of the volume of financing, may I say that the year 1955 was an extremely active one, although the total volume of public bond financing for the year, aggregating \$2,670,000,000, was down sharply from the 1954 total of \$4,500,000,000. The smaller amount in 1955 was principally the result of lighter Government of Canada financing, which amounted to \$1,354,000,000 in 1955, compared to \$3,200,000,000 in 1954.

Total Canadian public bond financing during the first four months of the current year amounted to \$670,000,000 which compares \$560,000,000 in the same period of 1955. The increase this year was entirely due to a marked rise in volume of issues placed on the market by corporations. Corporate issues totalled \$422,000,000 in the first four months of the year compared to \$234,000,000 last year. Provincial financing dropped from \$196,000,000 to \$141,000,000 and municipal financing declined from \$130,000,000 to \$107,000,000.

Of the total volume of public bond financing the first four months (amounting to \$670 million) issues placed in Canada totalled \$458,000,000 and those placed in the United States to \$212,000,000. In the same period last year out of the somewhat smaller total (of \$560 million) sales in Canada amounted to \$495,000,000 and those in the United States to \$65 million.

At this point I should like to refer briefly to growth of our Treasury Bill Market. It is grati-

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Significant Canadian Economic Developments

It is indeed to note the growing interest on the part of the investing public in our relatively new Treasury Bill Market. Thinking in terms of the problems involved in establishing a new market of this type, the increase in the volume of Bills held by the public from \$22 million as at the end of January 1953 to over \$550 million at the end of April of this year is indeed proof of the broadening of the base of our money market and the growing popularity of Treasury Bills as a medium for the employment of temporarily idle funds. As was to be expected, experience has suggested adjustments and adaptations to meet Canadian conditions and I should like to say on behalf of the Investment Dealers of Canada that we appreciate very much the opportunities which have been given to us by the Treasury and the Bank of Canada to discuss the developments of this market in Canada.

Before concluding my remarks I should like to refer to the matter of foreign investment. In view of the prominence currently being given to this matter I feel that it is important that we, the Investment Dealers of Canada,

should make every effort to see to it that the real issues involved are clearly understood both at home and abroad.

Understanding Foreign Investment

As I have said on several other occasions, almost every Canadian is well aware of the fact that foreign capital has played a most important role in the development of our country, and that without it, and the know-how that has so frequently accompanied it, our progress in all probability would have been much slower. It is also clearly recognized by all forward-looking Canadians that we must continue to depend heavily upon foreign sources, for many years to come, to meet the tremendous needs for risk capital if we are to develop Canada's vast potential on the scale presently foreseen.

I am sure that I voice the feelings of the vast majority of Canadians when I say that we, as Canadians, are proud of the fact that the amount of foreign private capital invested in Canada exceeds that invested in any other country and that we consider this a clear recognition by investors abroad of the economic possibilities that lie ahead and the sta-

bility of our political and financial institutions.

Clearly the present discussion does not involve any question of the desirability of welcoming foreign capital to our shores, but rather it develops from the growing feeling among Canadians that they should have the opportunity of acquiring some measure of share ownership on the Canadian operations of subsidiaries that are wholly owned by United States or other foreign parent companies. This is a matter that warrants careful consideration by all concerned. We must bear in mind that capital comes here largely because of the opportunity for profit. However, it does seem unfortunate that our citizens have no opportunity to participate in the profits of some of our most important and most rapidly growing industries. There are, I believe, strong grounds for the suggestion that from the long range point of view it would be in the interests of many of these enterprises to have a Canadian interest in their share ownership.

There has also been some suggestion that in certain cases Canadian capital, under our present tax laws, is at a disadvantage vis-a-vis external capital. While it is important that we should see that Canadian capital does not labor under a disadvantage in any sphere of activity, we should strive to make it perfectly clear that foreign capital is welcome in Canada and that thinking in terms of our great destiny we look forward to working in even closer harmony with foreign capital in building the Canada of tomorrow.

Looking to the Future

Looking to the future, while I have no crystal ball, I think that you will agree with me that there is abundant evidence that the prediction made by one of Canada's great statesmen near the turn of the century, that the Twentieth Century would belong to Canada, will be borne out. To quote only one figure, the fairly generally accepted view that our population may reach 25 million by 1975 suggests in itself a tremendous development. However, while we can undoubtedly look forward to the future with confidence, I think a few words of caution might not be out of place. History indicates that we may reasonably expect to encounter some disappointments and that there may be some temporary interruptions in the growth of our economy. I also feel that we should bear in mind that the actions which we, as individuals and as a nation, take now in meeting our immediate problems may profoundly affect the prospects and well-being of our next generation.

Again looking to the future, I think that I can safely predict that the outlook for the investment business in Canada is extremely bright, for a healthy private enterprise economy requires a plentiful and continuous supply of capital. From the shorter-range point of view, the current official estimates of private and public investment in Canada in 1956, and the more tentative estimates for 1957, suggest that even though it may not be possible to carry out these intentions in their entirety, because of limitations upon the availability of funds, labor and materials, we can nevertheless anticipate that near-term capital requirements will be of very substantial proportions.

In closing, may I suggest that while I am convinced that Canada's growth in the next half century will be certainly spectacular by past standards, our actual achievements over the next 50 years, will, to a considerable degree, depend upon the willingness of the Canadian people to invest in Canada's future and to place their shoulders to the wheel. This, in my opinion, presents a challenge to the Investment Dealers of Canada which I am sure they will accept.

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